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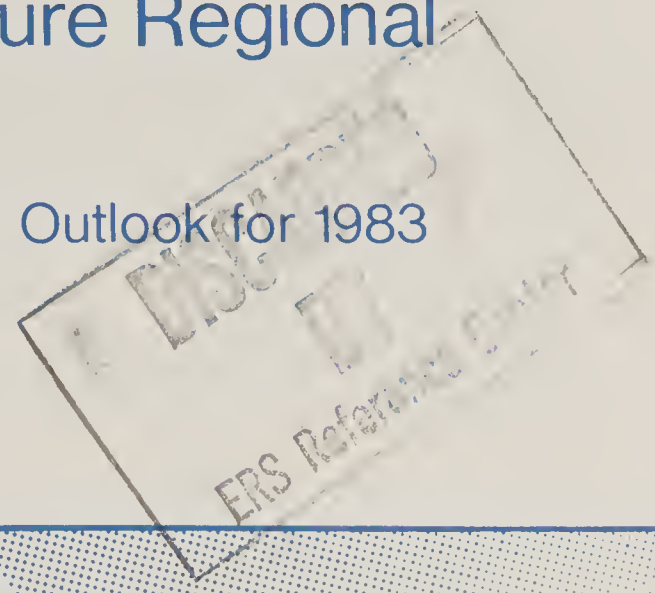
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Review of 1982 and Outlook for 1983



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ABSTRACT

Economic growth in 1982 was slower than usual in East Asia, providing little stimulus to changes in food consumption. Agriculture generally performed slightly better than in 1981; the livestock sector benefited from reduced input costs as world grain prices declined. Agricultural trade grew slightly in volume but dropped in value because of the general decline in agricultural prices. The high cost of protectionism and farm production subsidies in East Asia to its consumers, taxpayers, and trade partners became more than ever an issue in 1982. Agricultural production in 1983 should exceed 1982 levels; more rapid economic growth should lead to greater activity in the livestock sector than in 1982. Severe constraints on the region's ability to export textile products will continue to prevent significant growth in fiber imports.

KEYWORDS: East Asia, Japan, Korea, Taiwan, Hong Kong, agricultural production, food consumption, agricultural trade.

FOREWORD

This report describes and analyzes recent developments in East Asia that affect the agricultural trade of the United States. The area covered includes Japan, the Republic of Korea, Taiwan, and Hong Kong. This is the first ERS report to deal exclusively with East Asia.

The report considers the performance of the agricultural sector and food and fiber consumption in 1982. Overall economic trends and policy developments are discussed in explaining the situation in 1982 and the outlook for 1983 in each of the countries. In addition, three special articles provide extra information on trade-related issues of importance in 1982: Taiwan's agricultural needs to 1990, the beef/citrus issue in Japan, and the impact of 1982 textile pacts on U.S. cotton shipments.

Country statements and country-specific parts of the special article on industrial raw materials were written by Lois Caplan (Japan), John Dyck (Korea), Amjad Gill (Taiwan), and Richard Nehring (Hong Kong). William Coyle and Donald Sillers contributed special articles summarizing their research, and supplied information for other parts of the report as well.

John Dyck coordinated preparation of the report with the guidance of E. Wayne Denney. Patricia Singer edited the report. Leslie Ross provided statistical assistance. Patricia Abrams and Rebekah Collins handled word processing. Grateful acknowledgement is extended to the staff of the Foreign Agricultural Service, especially to those agricultural counselors and attaches whose reports were drawn on extensively.

The International Economics Division's program of agricultural outlook and situation analysis and reporting includes the following regularly scheduled publications: *World Agricultural Outlook and Situation*, published quarterly; *World Agriculture Regional Supplements*, a series of 11 reports, issued annually, covering China, East Asia, Eastern Europe, Latin America, North Africa and the Middle East, North America and Oceania, South Asia, Southeast Asia, the Soviet Union, Sub-Saharan Africa, and Western Europe; *Foreign Agricultural Trade of the United States*, published bi-monthly; and *Outlook for U.S. Agricultural Exports*, published quarterly.

The division also publishes the *Food Aid Needs and Availabilities* report and the *World Indices of Agricultural and Food Production*. For information on those publications, contact the International Economics Division, USDA, Rm 348, 500 12th Street, S.W., Washington, D.C. 20250.

We welcome any comments, suggestions, or questions about this report or other aspects of the food and agricultural situation in East Asia. Responses should be directed to the Asia Branch, International Economics Division, Economic Research Service, USDA, Room 350, 500 12th Street, S.W., Washington, D.C. 20250. Our telephone number is (202) 447-8229.

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EAST ASIA



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REVIEW OF AGRICULTURE IN 1982 AND OUTLOOK FOR 1983

SUMMARY

**East Asian Economies Continue To Grow,
But at Slower Rates**

The four countries of East Asia (Japan, Korea, Taiwan, and Hong Kong) could not avoid the economic problems that plagued the rest of the world—including their trading partners—in 1982. Growth in the region's real GNP ranged from 2.4 percent (Hong Kong) to 5.4 percent (Korea), much lower than the rates typical of the period since 1960. However, the area continued to grow more quickly than other parts of the world. While the decline in world trade in 1982 hurt the export-led economies of East Asia, there were some welcome corollaries to the world economic slowdown. Oil import bills fell, as did prices of many other raw commodities. These price declines and the declines in interest rates around the world helped alleviate inflation and, in Korea, the heavy interest burden on foreign debts. Excess capacity throughout the region also helped put an end to the high inflation rates that had been customary in the three newly industrializing countries (NIC's): Taiwan, Korea, and Hong Kong.

Protectionist actions taken by most of the large, developed-country markets tightened the constraints on the region's growth. Both heavy and light industries in all the East Asian countries were affected. But the tighter trade barriers to textile and garment exports from the three NIC's will have the most direct impact on U.S. agricultural exports (see the special section on cotton at the end of this report). Conversely, the East Asian countries, except Hong Kong, encountered increasing pressure to lower their barriers against imports (see the special article on U.S.-Japan agricultural trade issues and the section below on food consumption).

Numerous long-term forecasts predict that economic growth rates in the region will not reattain the levels of the 1960's and 1970's. Nevertheless, food and feed consumption in the 1980's are expected to mark dramatic changes as the countries continue to shift dietary patterns in response to income changes already realized (see the section on food consumption and the special article on the Taiwan export market profile). In 1982, food consumption changed most notably in Korea, where rice consumption declined and meat consumption resumed a strong upward trend, interrupted since 1979. Meat consumption grew by 4 percent for the region as a whole in 1982, well above the rate of population growth, which lay under 2 percent. Beef and poultry meat consumption showed strong gains, and imports of these meats grew. Consumption of meat, milk, and eggs as a group grew by about 3 percent. Food consumption of rice dropped slightly in 1982, while total wheat consumption grew marginally in 1982/83; both fell on a per-person basis.

The use of grain for feed in 1982/83 remains near 1981/82 levels. Strong growth in Korea offset a decline in Japan. Feed use of rice in Japan has replaced increasing quantities of imported grains. Aggregate corn and sorghum feed use dipped marginally in 1982/83. Soybean crushing rose about 2 percent in 1982 over 1981; soy meal imports dropped, however, so that meal consumption remained virtually the same in the 2 years.

Agricultural production in the region showed no striking changes. Korea managed to get normal harvests despite a severe drought. Rice production grew slightly in all the producing countries. Production of meat, eggs, and milk increased in all the countries except Hong Kong. With few exceptions, fruit and vegetable production surpassed 1981 levels.

Agricultural trade increased in volume but decreased in total value because of low commodity prices. Japan remained the single largest market for U.S. farm goods, and together the countries took 22.8 percent of all U.S. agricultural exports by value. Agricultural exports again were relatively small, and East Asia remained one of the world's largest net food importing regions.

Outlook Is for Faster Growth in 1983

The outlook for 1983 is for faster economic growth throughout the region, with relatively little change in prices, trade balances, and foreign exchange reserves from 1982 levels. The degree of recovery in world trade during the year will be a key factor in the growth prospects of all the countries. Thus, the extent of recovery in the United States and Europe, and the speed with which the recovery is translated into increased imports, will be important to East Asia in 1983 and 1984. East Asia growth rates will in turn affect the volume of most U.S. farm products shipped to the region. East Asia's exports of light industrial goods made from U.S. raw materials face mixed prospects in 1983. Footwear exports should continue to grow, but fabric and garment exports will be constrained by bilateral agreements even if world economic recovery is strong in 1983.

Commodity forecasts for 1983/84 are given in tables 1-5. The outlook for grain production in 1983 and 1984 is one of little change from 1982 levels, given average weather conditions and present policies. This will lead to a further drop in rice stocks, since consumption, although falling per person, still exceeds production. Rice stocks could be as low as 3 million tons by late 1983 and 2 million tons by late 1984 (table 1). This would lessen the need by Japan and Taiwan to export rice and probably lead to new South Korean purchases in 1984 and 1985. Wheat imports are expected to show little change through 1983/84 (table 2). Total nonfeed grain use should show a slight increase in 1983/84.

Production of all livestock products is expected to increase in 1983 (table 3) and the growth will continue beyond 1983 if world economic activity shows a significant pickup. This should raise feed grain use by over 3 percent in 1983/84 (table 3). Soybean crush should also show growth (table 5). Imports of beef and poultry products, and of live cattle, will increase in 1983.

Changes in the current high prices of rice and beef (table 9) could come as a result of changing Government trade, price, and consumption policies. These policies deserve close attention from those examining future import demand in East Asia. The U.S. market share in the region's agricultural imports should at least hold 1982 levels.

Table 1.—Rice in East Asia^{1, 2}

	Area	Production	Imports	Consumption	Exports	Ending stocks
	1,000 ha			1,000 tons		
1981	4,169	16,538	2,693	17,747	1,009	6,509
1982	4,169	16,774	698	17,983	618	4,884
1983 ³	4,184	17,165	603	18,253	807	3,201
1984 ³	4,180	17,150	385	18,004	610	2,137

¹November-October year for Korea and Japan; calendar year for Taiwan and Hong Kong. For this aggregation, November-October 1980/81 has been used for 1981 data, and so forth for later years. ²Area and production in year of harvest; use, trade, and stocks in year of use. ³Forecast assuming normal weather and continuation of present policies.

Table 2.—Grains in East Asia¹

	Production ²	Net imports	Consumption	Ending stocks
1,000 tons				
WHEAT				
1981/82	656	8,185	8,814	1,987
1982/83 ³	807	8,172	8,909	2,000
1983/84 ⁴	775	8,239	9,039	1,978
BARLEY				
1981/82	1,242	1,908	3,059	1,040
1982/83 ³	1,139	1,701	3,026	885
1983/84 ⁴	1,173	1,851	3,119	790
CORN				
1981/82	253	18,628	19,408	1,715
1982/83 ³	230	19,907	20,167	1,685
1983/84 ⁴	243	20,890	20,805	1,583
SORGHUM				
1981/82	16	4,994	4,824	638
1982/83 ³	19	3,994	4,088	563
1983/84 ⁴	19	3,970	3,640	521

¹July-June years except: Korea (November-October); Hong Kong (calendar year), for which calendar 1981 becomes 1981/1982, etc.

²Products in the year of harvest. ³Preliminary estimate. ⁴Forecast.

**Table 3.—Aggregate grain use in East Asia
Use of grains for feed¹**

	Corn	Sorghum	Barley	Rice ²	Wheat	Total
	1,000 tons					
1981/82	15,985	4,818	1,823	372	166	23,164
1982/83 ³	16,584	4,085	1,760	700	175	23,304
1983/84 ⁴	17,520	4,025	1,854	600	175	24,174

Use of grains for food and other nonfeed uses¹

	Rice ²	Wheat	Corn	Barley	Total
1981/82	17,503	8,648	3,423	1,236	30,810
1982/83 ³	17,473	8,734	3,583	1,266	31,056
1983/84 ⁴	17,404	8,864	3,725	1,266	31,258

¹July-June year except: Hong Kong (calendar year for all grains); South Korea (November-October year for all grains); Japan (November-October for rice); Taiwan (calendar year for rice). Calendar year data have been assigned to the second year of the split years. ²Milled. ³Preliminary estimate. ⁴Forecast.

Table 4.—Livestock products supply and consumption in East Asia

	Production	Net imports	Consumption
	<i>1,000 tons</i>		
BEEF			
1981	570	260	809
1982 ¹	572	294	868
1983 ²	595	312	906
PORK			
1981	2,301	373	2,666
1982 ¹	2,389	320	2,714
1983 ²	2,465	300	2,764
CHICKEN MEAT			
1981	1,359	191	1,549
1982 ¹	1,457	203	1,642
1983 ²	1,503	211	1,742
TOTAL MEAT ³			
1981	4,230	824	5,024
1982 ¹	4,418	817	5,224
1983 ²	4,563	823	5,412
EGGS			
1981	813	91	932
1982 ¹	858	97	955
1983 ²	880	107	987
FLUID MILK			
1981	7,188	70	7,246
1982 ¹	7,256	62	7,389
1983 ²	7,348	65	7,414

¹Preliminary estimate. ²Forecast. ³Includes beef, pork, and chicken meat, but not other meats.

Table 5.—Soybeans in East Asia

	Area	Production	Net imports	Crush	Food and other uses	Total consumption	Ending stocks
	<i>1,000 ha</i>			<i>1,000 tons</i>			
1981	361	484	5,858	4,829	1,498	6,327	878
1982	357	468	6,126	4,945	1,582	6,527	961
1983 ² /	360	467	6,330	5,165	1,584	6,749	1,011

¹Area and production in year of harvest; trade, use, and stocks in year of use. Aggregation of calendar-year data except for Korea, which reflects November-October data. ²Forecast.

Table 6.—U.S. agricultural exports to East Asia by end use, fiscal 1981 and 1982

Country/year	Food		Feed, livestock, seed		Industrial use (nonfood)		Total	
	<i>Million U.S. dollars</i>	<i>Percent</i>	<i>Million U.S. dollars</i>	<i>Percent</i>	<i>Million U.S. dollars</i>	<i>Percent</i>	<i>Million U.S. dollars</i>	<i>Percent</i>
Hong Kong								
1981	268	69.2	20	5.1	99	25.5	388	100
1982	283	70.3	17	4.1	102	25.4	403	100
Korea, Rep. of								
1981	1,063	49.8	375	17.6	697	32.6	2,136	100
1982	579	36.0	396	24.6	627	39.0	1,607	100
Japan								
1981	2,735	40.8	2,857	42.6	1,114	16.6	6,706	100
1982	2,551	44.7	2,067	36.2	1,126	19.7	5,737	100
Taiwan								
1981	350	31.7	545	49.3	209	18.9	1,105	100
1982	315	27.0	496	42.5	355	30.4	1,166	100
Total								
1981	4,391	42.7	3,805	37.0	2,077	20.2	10,335	100
1982	3,728	41.8	2,976	33.4	2,209	24.8	8,913	100

U.S. AGRICULTURAL TRADE WITH EAST ASIA

Low Commodity Prices Shrank Trade Value in 1982

East Asia, after Western Europe the largest regional market for U.S. agricultural goods, imported 14 percent (\$1.45 billion) less from the United States in fiscal 1982 than in 1981. The drop was, proportionately, slightly greater than that for U.S. farm exports to the world as a whole. The reasons were diverse, but they can be discussed in terms of a three-way division of exports: those for food use; those for feed, livestock, and seed; and those for industrial raw materials that do not enter the food chain. Table 6 presents this breakdown by country for fiscal 1981 and 1982. The dominance of Japan is apparent; that country took about 64 percent of the total value of U.S. agricultural exports to the region in 1982. The drop in volume and value of U.S. feed grains to Japan largely explains the \$829-million decline in imports for East Asia's livestock sector. Food imports, however, fell \$663 million, mainly because of the decreased volume of Korean rice imports, although the moderate decline in wheat prices played a role in all the countries. Imports of farm goods for industry (58 percent cotton in 1982) rose by \$132 million, chiefly because Taiwan more than doubled the volume of its U.S. cotton purchases.

Feed Grain Import Volume To Rise in 1983

U.S. agricultural exports to East Asia are expected to grow 2.8 percent in fiscal 1983. The low growth figure disguises forecasts of appreciably increased imports in the feed/livestock sector because of another expected drop in feed grain unit values. Real growth occurred in the livestock sectors in Korea and Taiwan in 1982, after sluggishness in 1980 and 1981. Continued growth in those countries is expected to be one of the key factors in adding to the region's volume of imports from the United States in the 1980's. While further growth among the farm goods for industry is expected in 1983, such expansion is not expected to be strong in later years. As East Asian countries develop, their light industries are expected to stabilize, and the share of these goods in imports is expected to decline.

The patterns of trade in 1982 illustrate these points. Foodstuffs comprised the highest share of U.S. imports in Hong Kong, because of its lack of agriculture, relatively high incomes, and good access to U.S. markets. Feed and livestock imports were notably lower to Korea than to Taiwan and Japan, reflecting Korea's low, although rapidly growing, consumption of livestock products. The four countries show an inverse correspondence between income per person and proportion of raw material imports; the higher the incomes (and wages), the lower the proportion of imports used in the labor-intensive textile, footwear, and other light industries.

Table 7.—U.S. agricultural exports to East Asia, fiscal 1982; volume and share of total exports of selected commodities

Commodity	Volume	Share of all U.S. exports of commodity (volume basis)
	1,000 tons	Percent
Wheat	6,030	13.5
Feedgrains & products	18,768	32.6
Barley	539	30.1
Corn	14,996	30.2
Sorghum	3,167	30.4
Soybeans	5,787	22.7
Soybean meal	116	1.8
Vegetable oils & waxes	121	7.2
Inedible tallow	168	12.5
Citrus fruits	442	55.2
Noncitrus fruits	91	14.9
Fruit juices	72	12.2
Tobacco	62	24.4
Cotton	919	61.8
Cattle hides ¹	12,435	56.1

¹1,000 pieces.

FOOD CONSUMPTION IN EAST ASIA

Table 8 shows levels of consumption of most foods in the four East Asian countries in 1981, the last year for which relatively good data exist. While the numbers were calculated independently for each country, and thus are not strictly comparable, they present a comparison that is roughly accurate. The differences, of course, reflect four historically different diets, and the countries' consumption patterns would not be the same even if resources and policies were the same. Nevertheless, income, prices, and trade policies have a major impact in shaping the diet of each country.

As the table shows, grain consumption declines with increases in income per person, and meat consumption rises. The exception, Japan, may be largely explained by

trade policy and resulting price distortions. Egg and milk consumption in East Asia follows the income differences with no exception, and fats and oils consumption also rises with income, although Japanese levels lie slightly below those of Hong Kong. South Korea's meat, egg, milk, and fats and oils consumption levels are strikingly low. Rising incomes are likely to raise these levels quickly and provoke noticeable growth in imports of these products (and feedstuffs) in Korea in the 1980's.

Price levels vary mainly as a result of trade policies. However, it is interesting to compare price levels and consumption in Hong Kong, where relatively free trade prevails, with those of the other three countries. Hong Kong, which imports the great bulk of its food, neverthe-

Table 8.—Food consumption in East Asia, 1981

	South Korea	Taiwan	Hong Kong	Japan
<i>Kilograms per person per year</i>				
Cereals, milled	202.6	137.8	96.2	111.9
Wheat	41.6	20.6	22.2	31.8
Rice	140.3	104.2	71.4	77.8
Coarse grains	20.7	13.0	2.5	2.3
Starchy roots and tubers	9.5	7.0	7.9	17.4
Sugar products	8.8	25.4	19.5	22.4
Pulses	9.8	17.1	3.5	8.4
Soybeans	8.2	10.7	3.5	5.3
Other vegetables	182.2	99.4	51.3	101.8
Melons	11.0	21.7	9.5	10.9
Fruits	24.8	77.0	72.3	48.1
Citrus	5.4	18.3	31.5	25.4
Tropical	t	35.5	10.0	7.3
Temperate	19.4	23.2	31.6	15.4
Meats	11.0	40.1	64.1	22.4
Beef	3.3	1.3	6.8	3.5
Mutton	t	.2	t	1.6
Pork	5.4	25.4	32.5	9.6
Poultry	2.3	13.3	24.8	7.7
Eggs	4.9	7.9	12.0	14.7
Marine products	35.6	37.9	35.0	36.5
Fish	23.0	37.9	35.0	34.8
Seaweed	4.6	NA	NA	1.3
Other	8.0	NA	NA	.4
Whole milk	13.2	28.8	20.7	33.9
Fats and oils	4.5	11.7	15.3	14.6
Vegetable oils	3.2	8.6	13.0	11.2
Animal fats	1.3	3.1	2.3	2.6
Butter	t	.2	1.0	.6
Total above	517.9	511.8	407.3	443.0
1981 Population (millions)	38.723	18.132	5.200	117.197
<i>Dollars</i>				
1981 GNP per person dollars at 1981 exchange rates	1,607	2,477	4,268	8,645

t = less than .1 kilogram

Source: ERS estimates based on preliminary data.

Table 9.—Retail food prices in 1981 and 1982

	United States		South Korea		Taiwan		Hong Kong		Japan	
	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982
<i>U.S. dollars/kg.</i>										
Beef ¹	5.27	5.34	9.66	10.03	7.57	7.24	4.19	4.18	15.20	13.44
Pork	3.35	3.86	5.45	5.11	3.48	3.43	2.87	3.23	6.92	6.61
Chicken meat	⁴ 1.61	⁴ 1.56	NA	2.19	2.07	1.95	3.34	3.49	5.43	4.79
Eggs	1.50	1.45	1.21	1.29	1.31	1.03	1.57	1.50	1.88	1.45
Milk ²	.57	.57	NA	NA	1.43	1.37	1.61	1.61	1.29	1.15
Rice ³	1.23	1.12	1.19	1.13	.69	.73	.67	.66	1.92	1.73
Wheat flour	.48	.48	.37	.34	.59	.56	.45	.43	.85	.76
Soybeans	NA	NA	.51	.42	.62	.57	NA	NA	NA	NA

¹Domestically-produced beef, except for Hong Kong; for U.S., composite price of choice beef. ²Milk: fresh, locally-produced, except Hong Kong; ERS estimate. ³Rice: traditional varieties in Korea; ponlai in Taiwan; long-grained, uncooked in U.S. ⁴Fryer, whole.

less has the lowest prices for beef, pork, and rice among the East Asian countries; prices in the other three countries might be expected to drop if trade barriers were lowered. Despite the high price of rice in South Korea and Japan, consumption remains high; given freer trade and lower prices, some increase in consumption levels might be expected in those countries, perhaps at the expense of wheat and other products, since consumers evidently continue to value rice highly. Despite low prices for poultry meat and eggs, relative to other meats and fish, South Korean consumption trails that of the other three countries markedly. This seems to indicate a rather strong cultural/dietary neglect of poultry products

in South Korea, with a negative implication for feed grain imports.

Tariff and nontariff barriers to fruits and vegetables are among the highest for agricultural commodities in the region. The effect on consumption is particularly strong in South Korea, where citrus and tropical fruit use is very low. Trade barriers in Japan, and to a lesser extent in South Korea and Taiwan, reduce beef consumption to levels far below those of Hong Kong. The high level of wheat, barley, and vegetable consumption in South Korea may partly stem from trade barriers which keep meat and rice prices high and reduce other possibilities for varying diets.

Table 10.—Tariffs and other trade regulations in selected agricultural products in East Asia, March 1983

Commodity	Japan		Taiwan		South Korea	
	Tariff	Non-tariff	Tariff	Non-tariff	Tariff	Non-tariff
	Percent		Percent		Percent	
Rice	0	G	0	c	5	G
Wheat	0	G	6.5	i	3.5	i,q
Wheat flour	25	G	30	c	30	
Barley	0	G,q	5		5	G,c
Corn for feed	0		3	i	5	i,q
Corn for non-feed use	0	¹ q	3	i	12	q
Sorghum	0		3		5	
Soybean	0		7	i	14	q
Beef	25	ql			22.5	G
Pork	7	v	75	c	25	c
Chicken meat	² 20		65		22.5	c
Eggs, fresh	³ 20		39		30	c
Powdered milk (for food)	25-35	q	25		25	c
Apples	20	p	75		40	c
Oranges	20/40s	ql	25/75s		60	c
Garlic	5	p	52		30	c
Tallow, inedible	0		10		10	q
Palm oil	8		20		10	q

Notes:

Codes:

- c = Government-controlled; normally not allowed
- p = phytosanitary barriers
- G = Government or quasi-Government agency the only legal importer
- q = quota for the tariff rate given
- ql = absolute quota limit
- i = import price stabilization scheme
- s = rate depends on season
- v = variable levy

¹15,000 yen/mt assessed on amount above quota. ²Chicken legs, 15 percent; tariff will be reduced to 10 percent by 1987. ³Eggs for hatching enter free.

Recession in West Affects Export-Reliant Colony

Hong Kong's real growth in 1982 fell to 2.4 percent, with declines in exports and domestic manufactures more than offsetting double-digit growth in service industries. Unemployment increased only slightly to 4.0 percent, but this figure disguises a growth in underemployment at lower wages. The colony experienced its first budget deficit in more than a decade as expenditures on ongoing Government programs grew 20 percent faster than revenues, dampened by the fall in economic activity. Other unfavorable developments included a continuing slump in the local property market and a failure to resolve the colony's future with the People's Republic of China (PRC). Brighter spots in the economy were substantial declines in inflation and interest rates. The inflation rate was slashed by one-third to 10 percent because of a reduction in the money supply's rate of growth. Interest rates dropped also, to 10.5 percent in December 1982, the lowest since mid-1980.

Total imports decreased 12 percent to \$22.1 billion because of a decline in the manufacturing sector and a weakening Hong Kong dollar. Imports from Japan (mostly textiles and equipment) fell 11 percent to \$4.8 billion and imports from the United States (mostly manufactures) fell nearly 2 percent to \$2.4 billion. Imports from Taiwan, Singapore, and the United Kingdom also declined. By contrast, PRC for the first time became the leading source of imports, accounting for more than one-fifth of total imports. These purchases translate into about 20 percent of PRC's foreign exchange earnings for the year. A large jump in imports of clothing, agricultural products, and iron and steel offset declines in textile made-up articles and petroleum products, leaving total 1982 imports from PRC at \$4.9 billion. Of total PRC imports, textiles and textile products comprised 32 percent and agricultural products 18 percent.

Hong Kong's total exports dropped by 11 percent to \$19.7 billion in 1982. Some export gains resulted from a depreciation of nearly 10 percent in Hong Kong's freely floating dollar; miscellaneous manufactured articles such as dolls and toys sold better after the depreciation. But most export markets suffered because of the recession in the West. For example, textile exports to the United States declined about 4 percent to nearly \$2.0 billion. Severe economic problems and local constraints on trade were important factors in West Germany, where Hong Kong's textile exports dropped 9 percent, and the United Kingdom, where they dropped 12 percent. The value of the colony's textile exports, comprising about 35 percent of total exports, declined 6 percent in 1982 to \$5.82 billion. But volume increased an estimated 3 percent. Some export industries hard hit included photographic equipment and electronics.

Overall, Hong Kong's 1982 trade deficit was \$2.4 billion, compared with \$3.0 billion in 1981. The current account deficit, however, was \$1.1 billion. Hence the deficit was substantially covered by financial inflows, reflecting the colony's major role in Asian banking, investments, and services.

PRC's Shadow Lengthens Over Economy and Politics

Hong Kong's total trade with PRC amounted to \$6.7 billion in 1982, accounting for 23 percent of imports and 10 percent of exports. Total trade between them has nearly quadrupled in the last 5 years. It is estimated that 20-30 percent of PRC's foreign exchange earnings are generated through Hong Kong, including trade, remittances from Hong Kong residents to relatives in PRC, tourism, operation of the Chinese airline, and railway and shipping operations. By comparison, the United States, Hong Kong's other major trading partner, accounted for 11 percent of imports and 22 percent of exports. But the U.S. share in Hong Kong trade is not growing nearly as rapidly as that of PRC.

Clarification of PRC's attitude toward economic, social, and political integration of the colony into PRC in 1997 (when the current lease on the New Territories expires) has, therefore, become a major issue. (The colony has three parts. In 1997, the New Territories will be returned to PRC, but Hong Kong Island and Kowloon would remain under British sovereignty according to treaties presently in force.) Uncertainty over the issue contributed to a 4-month slump last year in the Hong Kong Stock Market, clearly indicating investor concern about the long-term economic future of the colony.

Britain, following its Falkland Islands experience, declared a moral responsibility to the colony in 1982. But PRC's public assurances that it will turn the colony into a self-governing administrative zone have left unclear what is to happen to the present economic, social, and political system when PRC gains sovereignty. Difficult issues to be settled include (1) determination of how to price resources and traded goods, (2) form of ownership, (3) freedom of resource flows, (4) access to Western markets, (5) form of legal system, (6) freedom of information, (7) independence of currency, and (8) type of tax system.

Agricultural Imports Continue Upswing

Total imports of agricultural commodities by Hong Kong increased 5 percent to \$3.7 billion in 1982. Important agricultural commodities traded include grains, cotton, fruits, oilseeds, meat, live animals, and feedstuffs. Imports of live hogs, the most important agricultural import, were valued at \$217 million, rice at \$132 million, pork meat at \$94 million, and wheat at \$33 million. Cotton imports in 1982 reached an estimated 164,000 tons (up 7 percent) valued at \$191 million (down 17 percent).

Agricultural imports from PRC, mostly unprocessed products, comprised 45 percent of total agricultural imports, a hefty jump in market share over the last 4 years (tables 11 and 12). PRC's competitive advantage in the Hong Kong market is due to its proximity to the territory, the desire for product freshness among Hong Kong consumers, and competitive prices. By contrast, the U.S. share in the Hong Kong market declined 4 percent during the last 3 years (table 12). U.S. suppliers can, however, offer stable supply and/or high quality and competitive price on such items as cotton, grains, citrus, frozen poultry, and vegetables.

Table 11.—Hong Kong's imports of agricultural commodities from China, averages 1960-64, 1965-69, 1970-74, 1975-79, for value and annual 1978-82 for quantity and value¹

Year	Total	Live animals	Meat	Eggs	Rice	Fruit and vegetables	Sugar, refined	Tea	Soybeans	Other oil-seeds	Peanut meal	Corn	Cotton	Feeding stuffs	Plants used for pharmacy	Other
<i>Million dollars</i>																
Average																
1960-64	121.7	31.2	8.0	11.3	15.4	20.8	10.2	2.5	1.5	0.7	NA	0.1	—	NA	6.1	13.9
1965-69	216.2	61.8	23.8	17.5	19.3	40.0	8.1	2.7	1.4	1.4	NA	—	—	NA	12.8	27.4
1970-74	379.5	118.7	41.8	28.5	48.2	66.1	9.2	4.6	2.7	2.4	NA	0.8	—	NA	24.6	31.9
1975-79	856.4	211.2	97.3	48.7	65.3	142.9	9.8	11.9	4.0	5.4	NA	5.1	16.9	NA	71.0	166.9
Annual																
1978	894.0	213.2	109.1	58.4	67.4	166.9	8.8	15.3	3.4	4.9	2.3	3.8	3.2	.7	91.9	144.7
1979	956.8	210.0	119.9	58.8	68.4	187.2	8.3	15.3	3.9	8.6	4.1	5.6	5.3	1.2	88.9	171.3
1980	1,216.8	268.1	168.1	60.5	81.8	215.4	23.3	18.4	3.6	19.5	8.0	15.6	3.5	2.2	111.7	217.1
1981	1,498.0	261.7	163.7	57.7	86.9	254.2	13.9	17.2	2.7	48.4	10.4	21.5	2.4	6.4	95.9	285.4
1982 ²	1,683.0	264.8	187.5	63.6	75.2	268.2	9.0	17.5	3.9	37.3	12.8	17.2	2.9	2.1	102.0	414.0
<i>1,000 head</i>																
Annual																
1978	—	3,039	70.6	54.9	185.0	430.4	38.5	8.0	10.1	5.7	10.3	22.1	1.9	4.2	18.1	NA
1979	—	3,013	81.8	65.1	198.2	484.0	33.8	7.1	12.1	10.0	17.0	40.4	3.6	8.4	16.3	NA
1980	—	4,470	10.3	69.5	187.9	523.4	38.1	8.3	9.6	20.1	34.8	100.4	2.1	10.7	21.1	NA
1981	—	3,204	108.8	59.2	194.6	497.3	25.0	7.6	8.4	48.7	53.7	147.0	1.2	37.1	26.2	NA
1982 ²	—	3,174	107.2	61.3	173.3	492.2	24.5	7.1	12.2	50.1	63.8	128.7	1.8	12.2	23.2	NA
<i>1,000 tons</i>																

¹Calendar year. ²Preliminary.

Source: UN trade runs, Hong Kong Trade Statistics, Hong Kong External Trade and ERS estimates.

Table 12.—Hong Kong's agricultural imports, by country of origin, 1978-82¹

Year	Total	China	United States	EEC	France	United Kingdom	Thailand	Australia	Japan	Singapore	Pakistan	South Korea	Other
<i>Million dollars</i>													
1978	2,428	894	493	201	70	53	117	114	90	44	25	47	280
1979	2,622	967	523	239	94	64	128	121	97	47	15	42	295
1980	3,180	1,217	633	244	75	72	138	129	132	54	53	57	376
1981	3,524	1,498	568	261	90	71	156	133	211	66	23	62	555
1982 ²	3,708	1,683	585	265	95	77	150	162	200	67	23	51	546
<i>Market share (percent)</i>													
1978	100	37	20	8	3	2	5	5	4	2	1	2	12
1979	100	36	20	9	4	2	5	5	4	2	1	2	11
1980	100	38	20	8	2	2	4	4	4	2	2	2	12
1981	100	43	16	7	3	2	4	4	5	2	1	1	16
1982	100	45	16	7	3	2	4	4	5	2	1	1	15

¹Includes nonalcoholic beverages and cigarettes. ²Preliminary.

Source: UN trade runs, Hong Kong Trade Statistics, and ERS estimates.

Meat consumption in 1982 grew an estimated 5 percent to 346,000 tons, comprised of 170,000 tons of pork, 132,000 tons of poultry meat, and 44,000 tons of beef. Though constrained by labor and land costs, the local livestock industry supplied about one-fifth of total meat consumption, creating an import demand for feedstuffs. The pig, broiler, and layer industries are most important, followed by dairy (Hong Kong has only a small beef industry). Nevertheless, the gap between rising demand for livestock products and insufficient domestic production continued to grow in 1982.

Still, consumption of imported mixed feeds (about one-half for poultry) amounted to about 50,000 tons in 1982. Protein meal consumption—consisting of imported soybean, fish, peanut, and meat meals—amounted to an

additional 79,000 tons. Protein meals continued to replace concentrate feedstuffs as producers upgraded feed rations. In 1982, protein meal consumption was nearly double that of 4 years earlier, while concentrate feedstuffs consumption was down by 50 percent.

Hong Kong's coarse grain imports remained steady at 321,000 tons, with Thailand and PRC the major suppliers. Rice imports decreased 4 percent to 348,000 tons, as excess stocks dampened import activity.

Total U.S. exports of agricultural products to Hong Kong, excluding nonalcoholic beverages and cigarettes, declined 1 percent to \$391.7 million, far below the record level of \$436.6 million in 1980 (table 13). U.S. exports of apples, vegetables, poultry, and cotton all increased, but they failed to offset a sharp citrus export drop caused by

lack of available supply. However, U.S. exports of agricultural products including manufactured items increased 4 percent. U.S. imports of agricultural products from Hong Kong, mostly mushrooms and food preparations, declined 7 percent to \$43.3 million.

Improvement Expected in 1983

A return to the high-growth economy of 1979-81 depends on an end to the recession in Western countries. Should that occur, the GDP growth rate will likely rise to 4-6 percent in 1983, with the textile and electronic export sectors bouncing back and domestic services continuing their strong growth. Because oil imports comprise only 8 percent of total imports, an oil price decline would have only a minor positive impact on real

economic growth. However, Hong Kong would greatly benefit by the positive impact of an oil price drop on its major trading partners. The total trade deficit is expected to remain at \$2.6 billion.

Modest expansion in sales of U.S. poultry, eggs, vegetables, and wheat are likely. U.S. feed exports may remain down given current competition from Thailand. A rebounding economy is likely to sharply increase Hong Kong imports of quality products with relatively high income elasticities, such as apples, fresh citrus, other fruit, and frozen vegetables. U.S. alcohol, tobacco, and cigarette exports to Hong Kong will likely suffer a blow in 1983 because of a twofold increase in alcohol duties and an increase in duties on tobacco and cigarettes, all imposed in February 1983. New duties on a liter of brandy amount to \$10. U.S. agricultural exports could reach \$450 million. [Richard Nehring (202) 447-8230]

Table 13.—U.S. agricultural exports to Hong Kong, 1979-82¹

Commodity	Quantity				Value			
	1979	1980	1981	1982	1979	1980	1981	1982
	1,000 tons				Million dollars			
Poultry meats	20.0	24.7	23.3	28.8	20.0	26.3	25.1	29.6
Eggs	4.7	4.2	6.4	7.2	4.9	4.3	7.2	10.4
Wheat	96.5	90.7	115.0	116.6	15.1	16.4	22.1	20.5
Fresh vegetables	21.7	26.0	27.7	36.5	8.4	10.7	12.5	12.9
Frozen vegetables	4.1	5.4	4.8	4.5	2.4	3.8	3.5	3.2
Fresh citrus	86.5	125.0	131.3	104.6	53.4	61.2	75.1	65.2
Other fresh fruit	24.0	24.4	34.6	26.9	12.8	14.9	21.3	17.9
Tobacco	2.1	2.4	2.0	2.3	10.4	11.6	10.7	11.5
Corn & vegetable oil	1.2	2.4	4.0	2.1	1.6	2.1	3.1	2.1
Animal feed	48.5	52.2	50.8	41.8	15.9	17.5	17.6	14.2
Cotton	95.9	106.6	47.2	60.0	129.5	150.8	76.9	75.0
Other	—	—	—	—	86.9	117.0	118.8	129.2
Total	NA	NA	NA	NA	361.3	436.6	393.9	391.7

NA = Not available.

¹Calendar year, excluding nonalcoholic beverages and cigarettes.

Source: U.S. Census runs and ERS estimates.

JAPAN

Japan's economy grew by a modest 3.0 percent in real terms in 1982, mirroring slumping economic conditions worldwide. Exports fell throughout the year, as did imports, reducing Japan's global trade surplus to \$6.9 billion from \$8.7 billion in 1981 (customs-clearance basis). Exports of automobiles dropped for the first time in over 20 years, while imports of crude oil declined for the third consecutive year. A weak yen, normally leading to expanding exports, did not offset slack demand from recessionary economies abroad; economic stagnation at home caused imports to decline as well.

The declining value of the yen relative to the dollar was caused by a combination of interest rate differentials, capital outflows, and economic and political uncertainty in Japan. The yen depreciated 13 percent against the dollar in 1982, thus making imports more expensive in terms of yen, and dampening import demand for many products, including agricultural items.

Although low by world standards, Japan's unemployment rate rose to 2.3 percent in 1982, a 26-year high. This reflected a drop in industrial activity. The number of bankruptcy cases declined 2.8 percent from the previous year, mostly as a result of easier credit conditions. Nevertheless, the construction, machinery, and textile industries showed notable increases in bankruptcies during the year. Increases in personal spending slowed, although inflation abated to 2.7 percent. Housing starts fell slightly (0.5 percent) from 1981, despite improvement in the second half of the year.

Agricultural Trade Issues Stand Out

During 1982 Japan was confronted with growing pressure for improved access to its market. Agricultural trade disputes eclipsed ongoing trade problems with respect to automobiles, high technology, and leather.

Import quotas on beef and citrus and the restrictive entry and distribution of foreign tobacco products became the chief agricultural trade issues between the United States and Japan, while Western Europe continued to press for lowered tariffs on chocolate, biscuits, and brandy.

In October 1982 the United States and Japan met to discuss the beef and citrus issue. Japan refused to yield to U.S. pressure for full liberalization of its quotas on imported beef, fresh oranges, and citrus juice. Japan's fiscal 1982 (April 1982-March 1983) quota for beef was set at 135,000 tons (global basis); for oranges, 77,000 tons; for orange juice, 6,000 tons; and for grapefruit juice, 5,000 tons. The existing framework for beef and citrus imports, negotiated during the Tokyo Round of Multilateral Trade Negotiations (MTN), is scheduled to expire March 31, 1984.

Japan announced several market-opening measures during the year, lowering tariff rates on many agricultural products. The third and latest package, announced in January 1983, excluded beef and citrus because of strong protests from influential farm groups. The new package, effective April 1, 1983, established minimum import levels for six agricultural categories: peas and beans, fruit purees and paste, tomato ketchup and sauce, tomato juice, noncitrus juices, and peanuts. It reduced tariffs, most importantly on cigarettes (from 32 to 20 percent ad valorem), chocolate (from 32 to 20 percent), and biscuits (from 36 to 24 percent). Japan also announced plans to take steps to facilitate imports by easing standards and simplifying certification procedures. An Office of Trade Ombudsman was created to handle trade access complaints.

Agricultural Output Expands

Japan's total agricultural output grew 4 percent in 1982, with notable increases in grain and dairy production. Cold weather and storms during the summer caused considerable damage, mostly to the rice crop. Japan imported \$16.3 billion in agricultural products in 1982, and exported close to \$1 billion. U.S. agricultural exports to Japan dropped nearly \$1 billion from 1981 to \$5.5 billion.

Rice production increased only slightly in 1982, to 9.34 million tons, because of bad weather and reduced area, but was still below normal levels, as in 1980 and 1981. With normal yields, production in 1983 should increase 6 to 7 percent. Rice is central to Japanese agriculture, contributing about one-third of gross agricultural output. Japan's 5.9-million-ton rice surplus as of 1979 has been substantially reduced—surplus rice carry-over stocks declined to an estimated 2.7 million tons at the end of October 1982, and are expected to be reduced to 1.1 million tons at the end of October 1983.

The Government's paddy field diversion program has helped to reduce the rice surplus. Under this program, the Government encourages farmers to plant alternative crops such as wheat and soybeans on rice paddy area. The cost of this program runs about 350 billion yen a year. Paddy area diverted to other crops in 1982 exceeded the Government's target of 631,000 hectares by 5 percent, although less area was diverted than in 1981. Because of generous diversion payments, farmers have generally taken more than the targeted paddy area out of rice production. The 1983 diversion target was lowered to 600,000 hectares, as rice stocks have become low.

Japanese rice exports in 1982 amounted to 318,000 tons, below the level specified in the U.S.-Japan Rice Agreement of April 1980. In 1979, 1980, and 1981, Japan exported large quantities of rice, mostly to South Korea. Rice exports are forecast to amount to 350,000 tons in Japan's fiscal 1983, the last year of the agreement.

Japan has substantially increased the use of surplus rice for livestock feeding. From November 1981 to October 1982, an estimated 372,000 tons of rice were used for feed, an eightfold jump from 1980/81. Another 600,000-700,000 tons are forecast for feed use in 1982/83.

Wheat output increased 26 percent to 742,000 tons in 1982, a result of diverting riceland to wheat, double-cropping rice and wheat, and increased wheat yields. Wheat imports totaled 5.6 million tons in 1982 and should about equal that amount in 1983. The United States, Canada, and Australia are Japan's major suppliers.

In February 1983, the average resale price of wheat (to wholesalers) increased 8.2 percent from the previous 3,812 yen per 60 kilograms (\$276 per ton). The wheat resale price was last increased in April 1981. The February price increase was motivated by the widening gap between the resale price and the higher producer price; Japan's Government purchases wheat from producers at about three times the resale price. Other staple commodities, such as rice and barley, are similarly controlled.

The Government does not plan to increase the resale price of rice because of declining rice consumption. Per capita consumption of rice was 77.8 kilograms in Japan's fiscal year 1981, down from 78.9 kilograms in 1980. Because of the relative changes in the resale prices of wheat and rice, per capita consumption of wheat could be slightly less than otherwise expected.

Despite a 6-percent drop in fruit-bearing mikan area to 110,900 hectares, mikan production increased an estimated 1 percent in 1982 to 2.8 million tons. The mikan area is being reduced under a Government-assisted production adjustment program. Both area and production of apples increased in 1982. Citrus and apples are the most important fruit crops grown in Japan.

Japan's 1982 pulse crop (peas and beans) increased 68 percent over 1981. Planted area increased in response to favorable prices after 2 successive poor harvests in 1980 and 1981, and yields were good. However, the plentiful crop has caused market prices to deteriorate.

Both the potato and onion crops recovered in 1982 from 1981's weather-reduced harvests. Potato production increased 18 percent to 3.65 million tons. Market prices for table potatoes have been favorable the last several years, inducing an increase in potato area, which prior to 1981 had been declining. About 40 percent of the annual potato crop is processed into starch. Although imports of fresh potatoes are prohibited for plant quarantine reasons, the United States continues to be Japan's largest supplier of potato products (frozen and dehydrated), shipping \$42 million worth in 1982.

Onion output for 1982 amounted to 1.23 million tons, up 18 percent over 1981. Favorable market prices encouraged a 3-percent increase in planted area. Japan imported a record 168,000 tons of onions (over half from the United States) from October 1981 to March 1982, as a result of 1981's short crop of Hokkaido onions. A good fall 1982 harvest has reduced onion import prospects considerably in 1983. Total vegetable production in Japan rose 2.3 percent to 13.9 million tons last year.

Livestock Production Recovers

Livestock production showed modest to healthy gains in 1982. Beef and veal production increased slightly less than 2 percent to 480,000 tons and is expected to increase marginally in 1983. Imports remained steady, although the United States continued to increase its share. Japan's total import quota for beef for fiscal 1982 was expanded to 135,000 tons, a level agreed upon under the Tokyo Round of Multilateral Trade Negotiations. Imports should pick up during the first half of 1983 as Japan increases purchases to comply with the quota expansion.

In response to higher pork prices, 1982 pork output increased 2.4 percent over 1981. Higher prices for imported pork, increased domestic output, and the ban on Danish pork imposed in late March because of an outbreak of hoof and mouth disease caused total pork imports to drop 22 percent in 1982. U.S. pork exports were lower because of high market prices. Pork imports are forecast to be the same or decrease slightly in 1983 because of slow growth in pork consumption and a small increase in production.

Spurred by active consumer demand as a result of stable retail prices and a shift from more expensive pork, broiler output rebounded by 7 percent in 1982. Production is expected to expand less rapidly in 1983. Despite the weak yen, total chicken imports were up in 1982, portending continued strong growth. The U.S. share of chicken imports (mostly legs) declined 7.4 percent from 1981. Egg production expanded nearly 3 percent, causing egg prices to decline 40 percent from December 1981's record high. Egg imports fell 19 percent in 1982 but are expected to recover in 1983.

Buoyed by growth in consumer demand, milk production increased 2 percent in 1982. Milk use for processing and feeding to calves rose slightly.

After declining in 1980 and 1981, production of formula feed increased in 1982 for all categories of livestock, with the largest expansion shown for chicks and broilers. Feed production increases reflected output gains in the livestock sector. Japan's National Federation of Agricultural Cooperatives (ZENNOH) cut mixed feed prices by about 5 percent for October-December 1982, and will keep prices for January-June 1983 at the same level (table 14). This action should help lower costs of production and stimulate livestock expansion. Feed purchased from other sources costs about 1,250 yen per ton more than from ZENNOH.

The yen's weakness offset low world grain prices, contributing to a decline in coarse grain imports. U.S. corn exports to Japan declined 10 percent in 1982, because of the yen/dollar situation and competition from South Africa. U.S. exports of sorghum were down close to 24

percent. Argentina resumed sorghum shipments to Japan in the latter half of 1982, sending 835,000 tons. Total barley imports were off 15 percent. Australia's barley exports fell nearly 50 percent because of tight supplies, while Canada increased its barley exports slightly. The United States is a residual supplier of barley to Japan.

Soybean imports increased 3.5 percent in 1982, to slightly below 1980's 4.4 million tons; imports are forecast to attain that level in 1983. Soybean crushing was up 2.7 percent, encouraged by growth in mixed feed production. Japanese crushers, because of the weaker yen, were unable to benefit fully from low world soybean prices and reduced freight rates (table 15). Increased demand for soymeal for livestock feed and tighter rapeseed supplies are expected to lead to a moderate increase in soybean crushing in 1983.

Table 15.—Average price per ton of U.S. soybeans

Year	Dollars/ ton f.o.b.	Dollars/ ton c.i.f.	Yen/ton c.i.f.	Yen/ dollar
1979	278	302	66,230	219
1980	272	296	67,300	227
1981	272	325	71,798	221
1982	¹ 233	262	65,047	248
January	262	276	62,040	225
February	254	265	62,243	235
March	254	268	64,680	241
April	265	271	66,375	245
May	269	270	64,097	237
June	264	273	68,473	251
July	249	278	70,968	255
August	234	268	69,480	259
September	217	256	67,416	263
October	214	242	65,661	271
November	231	240	63,546	265
December	¹ 232	237	57,688	243

¹Preliminary.

Source: FATUS, International Financial Statistics, Japan Customs Bureau.

The soybean meal content of mixed feed remained at 10.6 percent, down from 11.2 percent in 1980, because of some switching to competitively priced fish and rapeseed meals. Use of soymeal in mixed feed is expected to be up in 1983 because of increased feed production and relatively higher prices for fish and rapeseed meals.

Increased soybean meal production (up 3 percent in 1982) and a weak yen contributed to a sharp decline in soybean meal imports. Soybean oil imports were up to meet increased consumption needs. The United States supplied 92 percent of Japan's total soyoil imports.

Recovery in 1983 Weak

According to private estimates, Japan's economy will grow between 3 and 4 percent in Japan's fiscal 1983 (April 1983-March 1984), gaining momentum in the latter half of the year. The Government of Japan expects growth in domestic demand to account for most of its forecast 3.4-percent growth in real GNP, expecting only 0.6 percent to come from growth in export demand, thus reversing a pattern of export-led expansion. Japan fears economic isolation if other industrialized nations invoke greater protectionism against a surge of Japanese exports. The Government forecasts a small 1.1-percent rise in wholesale prices and a modest 3.3-percent rise in

Table 14.—ZENNOH mixed feed prices

Year	Month	List price	Rebate
Yen per ton			
1981	Jan.-June	81,900	0
	July-Dec.	78,000	0
1982	Jan.-June	73,100	0
	July-Sept.	75,850	2,750
	Oct.-Dec.	71,850	0
1983	Jan.-June	71,850	0

Source: TOFAS 748/JA2149

consumer prices. Japan's Foreign Trade Council, representing the country's 13 major trading companies, estimates exports will rise 7.2 percent in fiscal 1983. Growth in exports, tied to economic recovery in the United States and other developed countries, could be limited by restrictive trade practices and protectionist measures. A stronger yen, predicted to climb to between 220-240 yen to the dollar, should bolster imports.

Consumption of coarse grains is expected to increase slightly, in line with expansion in the livestock sector.

REPUBLIC OF KOREA

Exports Fail to Lead Strong Economic Growth in 1982

South Korea's economy grew in 1982, but at a slower rate than expected. Both exports and imports fell in absolute terms. The sluggish trade performance reflected worldwide stagnation in trade and was worrisome for South Korea, which has plans for quick, export-led growth in the 1980's. Imports fell more than exports, however, and the decline in the trade balance deficit was welcome news to Korea and its foreign creditors, since Korea is one of the most heavily indebted nations and underwent international scrutiny in the wake of repayment problems elsewhere.

In agriculture, farmers overcame a major drought and harvested a good rice crop. High demand from consumers and low feed prices caused substantial growth in the livestock sector and boosted feed grain imports. After a pause in the wake of the 1980 recession, Korea seemed in 1982 to continue the shift toward livestock products, both in consumption and production, that it began in the late 1970's. Food costs remained high in 1982 as Korea's protectionist barriers remained in place. Government subsidies to farmers were reduced as part of a plan to end subsidies by the mid-1980's. Plans to make the country more self-sufficient in agriculture by 1987 were also announced, but formidable barriers stand in their way.

South Korea's GNP rose 5.4 percent in real terms in 1982. Although high when compared to other countries' growth rates, the rise was less than the 8 percent originally targeted, and the sources of the growth cannot be counted on to sustain further increases in 1983 and beyond. Growth came from increased output by the agricultural sector and strong gains in construction (subways, nuclear power plants, and housing). Growth in manufacturing and mining was positive, but limited. Fishery output declined. Aside from overseas contract work (chiefly in the Middle East), increased output went mostly to satisfy domestic needs; demand from foreign sources made only a small contribution to total growth, an anomalous situation for Korea.

Exports, which have accounted for about one-third of GNP in recent years, fell by 1.4 percent in value in 1982 and showed no increase in volume. Textile-sector exports, the largest category (over 25 percent), declined slightly in value, confronted by heightened competition from the PRC and other low-cost exporting nations, continued protectionism by traditional major importers, and relatively weak global demand. Leather goods showed the strongest growth among light industrial exports, but exports of plywood continued to slump. Heavy industry's exports did better, led by the strong showing of Korea's burgeon-

U.S. exports of corn and sorghum to Japan in 1983 will be reduced to the extent that Japan substitutes surplus rice for these commodities and increases its imports of sorghum from Argentina. Gains in Japan's livestock sector—the greatest user of imported feed grains—are expected to continue, with output of beef, pork, and broilers forecast to show modest expansion, while increased demand for dairy products will likely stimulate growth in dairy production. [Lois Caplan (202) 447-8860]

ing shipbuilding industry. Despite continuing small devaluations of the won, in total about 6 percent against the dollar in 1982, traders complained that further devaluation was necessary in order to compete against other exporting nations.

Imports fell by 6.9 percent, an unprecedented event for Korea. Oil imports fell slightly in volume and more in value, saving Korea \$300 million over 1981. The reduced need for rice imports saved \$1 billion. Imports of consumer goods and raw materials fell, but capital goods imports showed an increase. The overall reduction in imports and most of the reasons for it pleased the Government and foreign creditors, since Korea's trade balance and current account deficits both fell sharply. However, the overall drop in Korea's trade in 1982 also reflected slack capacity and stagnation in world trade, factors which could severely hurt Korea in the next 2 years.

South Korea would have had a trade surplus were it not for its large deficits in trade with Saudi Arabia and Japan. Korea attributes much of its deficit with Japan to protectionism, especially in the textile industry, and seeks freer entry to the Japanese market in coming years. Trade with most of Korea's major, developed-country trade partners grew modestly in 1982. Trade with the United States remained roughly in balance, and the United States was again Korea's largest trade partner. The influence of the Democratic People's Republic of Korea (North Korea) continued to forestall direct trade with the PRC and USSR, although South Korea's openness to such trade was unchanged.

Korea experienced low inflation last year for the first time since 1973. The wholesale price index rose by about 3.1 percent and consumer prices about 4.2 percent, compared with 1981 increases of 22.5 and 23.9 percent, respectively. Nonfood consumer prices rose faster (5 percent) than did food and beverages (2.8 percent). Among commodities showing the greatest price swings, prices of education and tobacco products rose by more than 15 percent, while vegetable and fruit prices dropped by more than 5 percent. The rapid increases in energy and labor costs of the late 1970's seemed to have worked their way through the economy by 1981, and interest rate pressures eased in 1982. Since the Government intends carefully to control wage increases and speculation through 1986, and international energy price shocks do not appear to be imminent, South Korea expects low inflation rates for the next 4 years. The Government increased the money supply by 30 percent in 1982, a rate which cannot continue without danger of quickening inflation, but officials hope that money supply growth can be moderated if export demand rises in 1983 and provides more stimulus to the economy.

The budget came under pressure in a year when Government injections of capital into the economy were thought necessary to maintain even a modest rate of growth. Revenues from import duties fell with the drop in imports. The Government sharply lowered taxes in June and, despite the scaling-back of some expenditures, incurred a worrisome deficit. The cumulative deficits in the Grain Management Fund (\$1.69 billion) and the Fertilizer Fund (\$796 million) grew despite attempts to reduce them at the cost of farm incomes, and they became more burdensome than ever in the eyes of economic planners.

Korea benefited from the decline in international interest rates in its debt repayment. Domestically, the Republic of Korea Government decided to drop domestic interest rates several times in early 1982 in order to encourage investment, ending with a rate of 10 percent after June. Interest rates paid on savings were dropped to 8 percent in June, an event that may have discouraged household saving, although real interest rates actually turned positive for the first time in years as the rate of inflation slowed.

Agricultural Output Grew In 1982, Despite Drought

Drought, continued decline in barley production, a squeeze on vegetable prices, and a gloomy outlook for farm income made 1982 a year of uncertainty and mixed progress in Korean agriculture. The most positive factor was the recovery of momentum in the livestock sector.

Most of the winter and spring months were abnormally dry in South Korea, but precipitation in these months is relatively light at normal levels and has an erratic history. Thus the arrival of good rains in May, at the start of Korea's wetter season, allayed drought fears. However, rains ceased for all of June and the first half of July—a highly unusual situation—and there were widespread fears of a failure of the rice and other crops. Korea's extensive irrigation system, built up in the last 20 years, was completely drawn down before rains reappeared in late July and August. But at harvest most crops produced normal yields, a surprising result given the severity of the drought and a tribute to the irrigation system.

Rice Up, Barley Down

Rice production, at 5.175 million tons, exceeded the 1981 figure by 2.2 percent. Although less than the 5.472 million tons hoped for by the Government, the harvest was large enough to forestall further import needs. Area under high-yielding varieties increased from 27 percent in 1981 to 33 percent in 1982, and yields showed a substantial increase, due, somewhat paradoxically, to the abundant sunshine during the drought. Area and output of traditional varieties decreased, although yields increased slightly. Farmers had to abandon about 36,000 hectares (3 percent) of paddy because of the drought, and complained that they had to incur sizable extra costs in money and labor as they struggled to get sufficient irrigation water to crops. The Government helped mobilize civil servants, troops, and students to aid farmers, but farmers bore the brunt of the extra demands posed by the drought.

Despite this, the Government raised its purchase price for HYV's (the type of rice purchased by the Government) only 7.3 percent for the 1982 crop. While greater than the urban consumer price rise in 1982, this increase was less than the rise in some major input prices. Prices

of all goods and services used by farm households had risen by 9.1 percent in September over January 1982 levels, chiefly because of increases in labor costs (8.4 percent) and farm operating supplies (13.9 percent), most of all fertilizer, other chemicals, and farm machines.

Barley production in 1982, harvested in June, fell again in what has been a steady decline since 1979. Prices offered for the crop by the Government increased by 13.7 percent, but this was only slightly more than the increase in farm costs, and farmers remain reluctant to plant the crop. Malting barley, a competing crop with food barley, has grown in importance because of a successful contract system. Vegetable production in winter also competes with barley for labor and land. Despite the continuing large difference between returns to vegetable growing and barley farming, the drop in vegetable prices in 1982 may have slowed movement away from barley at planting time in November 1982.

Corn production, which had grown in the past decade, declined in 1982 because the Government's announced purchase price rose less than the rate of inflation. As a result, area planted dropped. Yields also declined, because of drought. Winter wheat production remained stable.

Vegetable and Fruit Production Good

Total vegetable production in 1982 is estimated at 7.87 million tons, up 6 percent from 1981. Drought failed to affect the output of most vegetables but caused severe problems for garlic. Poor production in 1981 had made seed garlic expensive and scarce, limiting area expansion even though prices would otherwise have encouraged greater planting. The shortage of food and seed garlic has persisted into 1983. But most vegetables were evidently in good supply in 1982, and prices for them fell off in nominal terms and even more in real terms from the high levels of 1981. Given the rather unfavorable trend of vegetable producer prices in 1982, no overall increase in area or production in 1983 is forecast.

Vegetable production has grown considerably in the last decade, especially garlic, onion, Welsh onion, and spring-harvested Chinese cabbage and radish. Production of these vegetables more than doubled between 1976 and 1980, and the output of most other vegetables increased as well. Of labor in all farming activities, the share going into vegetables rose to 17.3 percent in 1980 (the last year for which data are available), up from 10.1 percent in 1971, and land area producing vegetables rose to about 350,000 hectares, 16 percent of South Korea's agricultural land base in 1980. In 1971, area was 260,000 hectares, 11 percent of the cultivated land.

Fruit production reached record levels in 1982, largely because of the growth of the area in apples. Prices of most fruits in fall 1982 were slightly above those of 1981, despite the fact that 1982 harvests were substantially greater. However, pear and peach prices weakened from 1981 levels; good yields helped raise production by one-third. Pear prices have declined in real terms and relative to other fruits through the last 6 years, and pear orchard area has shown a slow decline.

Strong Growth in Livestock Resumes After a 2-Year Slump

Livestock production surged in 1982. After rapid increases in the 1970's, production of all kinds of livestock and poultry products (except milk) declined and then stagnated in the 2 years after 1979. But in 1982,

livestock, poultry raising, and feed use grew rapidly and exceeded 1979 levels. Despite the price-depressing potential of rapid boosts in livestock numbers and very large imports of beef, another crisis in the livestock sector is less likely than in 1979/80 because another economic recession is not likely in 1983.

Livestock product prices, which had climbed relatively high in 1981, declined modestly in 1982. The rapid acceleration of livestock raising in 1982 stemmed partly from the decline of feed prices through the year. Feed prices peaked in December 1981 and dropped thereafter, so that by October they were 5 percent below the average for 1981. Another factor was the growing confidence of producers, especially swine producers, that prices would remain relatively favorable, since they had stayed high for over a year. Imports of 40,000 head of feeder cattle and breeding stock also played a role in increasing herd size and feeding.

Cattle Prices Soar

Cattle prices rose almost every month from January 1981 to January 1983, nearly doubling. Consumer demand remained strong despite the import of 101,000 tons of beef in the 2-year period. Cattle numbers reached a 10-year low in January 1982. Calf numbers had reached a nadir the year before. The dairy and imported-breed components of the herd have maintained long-term increases, but the poor returns experienced by farmers in the 1979/80 period of low cattle prices and high feed costs had encouraged slaughter and herd reduction for native cattle. Rising prices in 1981 raised the calf inventory in January 1982 (496,000) 63 percent above the 1981 figure. Imports of feeder cattle at prices lower than domestic feeder prices aided herd expansion. Rising slaughter prices and falling feed prices made cattle raising steadily more profitable during 1982. The result of these factors was herd expansion through larger calf production and reduction of slaughter, as farmers fed animals to heavier weights. The cattle population in January 1984 is now anticipated to be 1.81 million, 8 percent higher than in 1983 and the second highest on record.

Swine Numbers Rise a Third

Swine prices, although a little lower than in 1981, remained relatively high, while feed prices declined. The Government had warned that another price collapse could occur in late 1982 due to a surfeit of meat supplies, but the collapse failed to occur. An outbreak of hog cholera killed 300,000 head. Nevertheless, as farmers grew more confident that they faced a favorable market, swine numbers increased, rising 31 percent from January 1981 to January 1982. The herd was boosted by the second-largest pig crop on record. Memories of the bitter experience of 1979/80 may slow herd expansion in 1983; if other meats continue to be abundant (as expected) and farmers keep up the 1982 rate of herd expansion, a sharp market price decline could occur.

Poultry Sector Shows Some Growth

Live chicken prices fell during 1982, but they were higher than year-earlier prices during the first half of the year and only slightly lower in July-December. Since poultry feed prices dropped by 5 percent during January-September, broiler raisers reportedly still found

prices favorable. Meat production increased to 99,000 tons, or by almost 9 percent over 1981.

Egg prices were above 1981 levels, while feed prices declined through the year. With increased profitability, egg producers expanded production by 3 percent, to about 202,000 tons. Layer numbers in January 1981 and 1982 were the same: 29 million. Expansion to 31 million by January 1983 will help increase egg production by 8.5 percent in 1983 if prices remain steady.

Dairy Expansion Continues Unabated

Fluid milk production increased to 575,000 tons last year, 12 percent above 1981, as dairy cow numbers increased by 15 percent. Farm gate milk prices were raised by 2 percent in April, and feed costs declined by almost 3 percent from January through September. Other farm costs rose, so that profitability probably did not increase. Nevertheless, profit margins were sufficient to encourage further expansion of milk production, which has gone on at a rate averaging 15 percent since 1976. Production in 1983 is forecast to rise again by 15 percent, due both to more cows and to greater output per cow. Korea imported about 10,000 Holsteins for breeding in 1982 and will take about the same number in 1983.

Food Consumption Shifts To Livestock Products in 1982

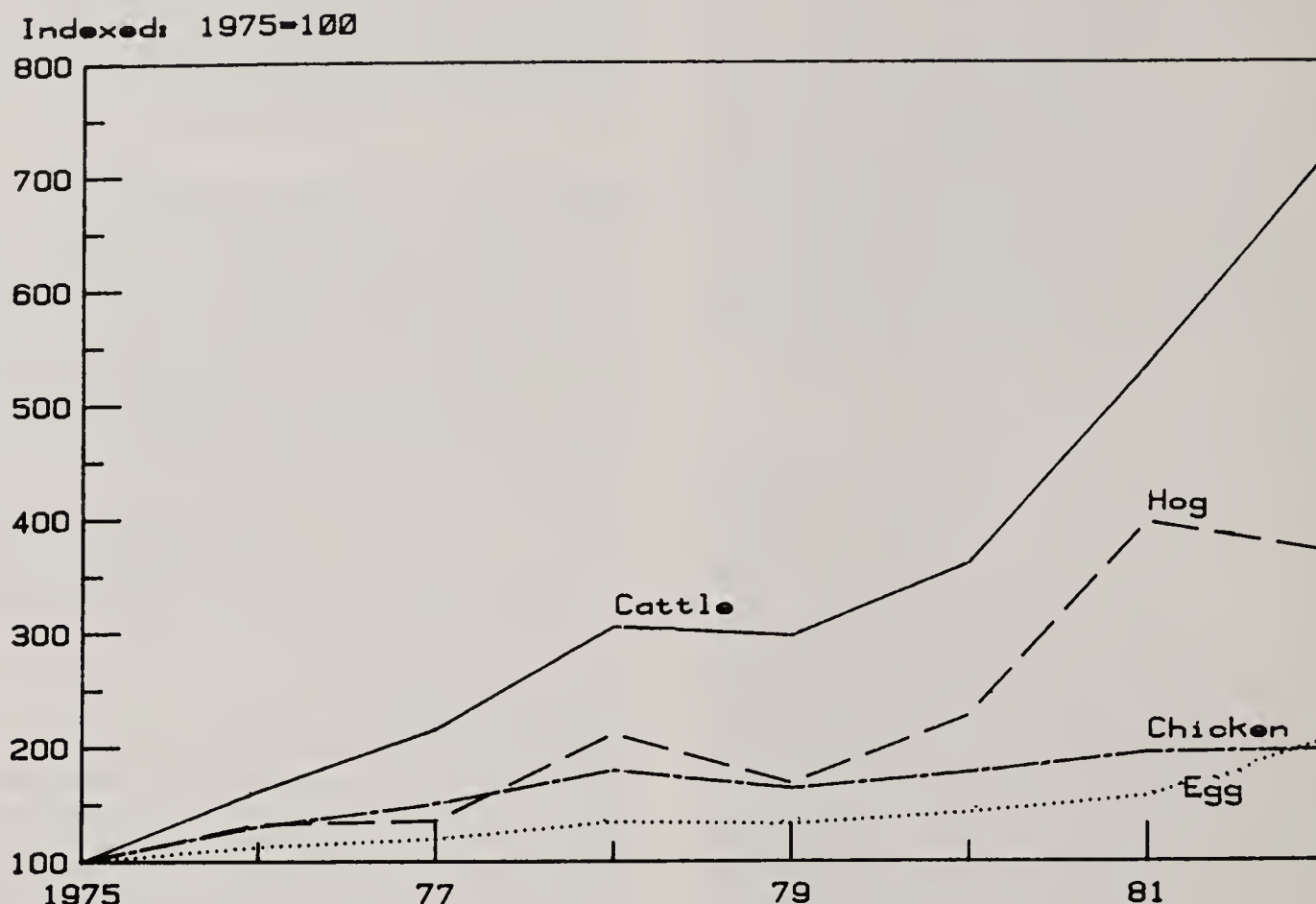
Relatively low price increases and modest growth in income per person aided food consumption in 1982. Growth was strongest for livestock products, where stability seemed to be the key factor favoring growth. Livestock producers gained increasing confidence during the second year of favorable prices, and consumers gained confidence that further economic shocks like those of 1979 (energy prices) and 1980 (recession) were unlikely in the near term. Debt problems lingering from the heady growth of the 1970's were lessened by the sharp drop in interest rates in 1982 and also by the passage of time, which allowed for repayments and various adjustments in household finances.

Total red meat consumption increased by almost 18 percent. Retail beef prices rose throughout 1982, to a level of \$10.68 per kilogram (\$4.85 per pound) at year's end. This occurred despite imports of 66,000 tons of Australian beef, an indication of the considerable latent demand for beef in Korea.

Most imported beef was sold packaged, an innovation in Korea, and all imported beef is to be sold in packaged form from 1983 on. The Government sets the sales price of imported beef high enough to pay for packaging and to accumulate a fund to aid domestic producers, but still well below domestically produced beef prices. In January 1983 the retail price of imported beef was lowered almost to the level of pork prices, in order to try to forestall a surge in pork retail prices.

Retail egg prices rose about 15 percent over 1981 average levels, and consumption rose by 4 percent. Chicken meat prices, however, fell during 1982, while consumption increased by 9 percent. Milk consumption increased by 12 percent, with milk for processing (ice cream, dried milk, etc.) increasing faster than milk for direct use. Retail milk prices were lowered during the year—the Government continues to favor milk production and consumption.

South Korea: Livestock and Poultry Producer Prices, 1975-1982



Grain Use Per Person Falls

Apparent total consumption of rice remained roughly the same in 1982 as in 1981, implying that consumption per person declined by 1.1 percent. Retail prices rose sharply in April-September, triggering larger Government release of imported stocks, but then declined in October-December, after the 1982 harvest. Although nominal retail prices for 1982 lay only 2 percent over the average for 1981, Korea's consumer rice prices were still exceptionally high by world standards. Price premiums paid for traditional varieties remained high. The required ratio of rice to barley in the rice mixture served in restaurants rose to 80:20 from 70:30 early in 1982. The Government authorized production of 53,000 tons of pressed and steamed wheat for mixing with rice in 1982. It also experimented with a new way of processing barley for mixing with rice, and with the promotion of potato dishes as rice substitutes. However, similar efforts in earlier years have had little or no success. Barley consumption per person sank to a new low in 1982, even though retail prices declined from 1981 (see table 16).

Wheat flour consumption in 1982 dropped 3.7 percent (5.2 percent per person), although prices increased only marginally. In 1980, during the recession, flour consumption had risen sharply, despite a large price increase. Consumption in 1981 and 1982, as economic recovery took place, lagged badly.

Vegetable consumption and fruit consumption both rose; vegetable prices dropped from 1981 levels, while fruit prices remained generally the same. Fruit production and, apparently, consumption rose by 23 percent from 1980 to 1981, and 16 percent from 1981 to 1982. Vegetable consumption apparently rose by 6 percent over 1981, but did not reattain the 1979 peak.

Prices of soybeans and other pulses were slightly below year-earlier levels in 1982. Fish prices rose at roughly the rate of livestock products, so that fish use probably did not replace meat consumption more than in earlier years. The price of sugar dropped during the year, as did seasoning prices in general. Edible fats and oils prices were static. Coffee and tea prices dropped, but soft drink and alcoholic beverage prices increased.

Agricultural Trade Decreases In Value and Volume

Korea's agricultural imports decreased in volume and value in 1982, as did agricultural exports. The major factor in the import decline was the small size of rice imports in 1982 in comparison to 1981. Rice imports in 1982 continued to trickle in to fill agreements Korea had made after the poor 1980 harvest, rather than in response to supply/demand shifts occurring in 1982.

If rice is excluded, Korea's agricultural imports showed an increase in volume, attributable to increased imports

Table 16.—Food consumption changes in Korea, 1979-1982

	Change in CPI yearly average			Change in real GNP per person		
	1979 to 1980	1980 to 1981	1981 to 1982	1979 to 1980	1980 to 1981	1981 to 1982
	<i>Percent</i>			<i>Percent</i>		
	28.7	21.3	7.3	-7.7	4.7	4.1
	Change in nominal retail price, yearly average			Change in consumption per person		
	1979 to 1980	1980 to 1981	1981 to 1982	1979 to 1980	1980 to 1981	1981 to 1982
	<i>Percent</i>			<i>Percent</i>		
Beef	32.6	40.9	11.5	-21.0	-9.4	21.7
Pork	21.5	66.3	.5	5.3	-14.2	17.2
Chicken (wholesale)	47.5	25.2	¹ -8.8	-1.2	-1.5	9.4
All meat	NA	NA	NA	-5.2	10.4	16.9
Egg	16.1	23.5	14.5	9.0	-6.5	1.5
Milk (wholesale, powdered)	28.0	19.3	¹ 2.5	17.1	10.3	10.4
Rice	30.9	41.4	2.1	² -15.8	-7.6	-1.1
Wheat flour	48.9	38.6	2.1	15.9	1.5	-5.2

¹1982 prices are January-September averages. ²1979 consumption data may be too high.

of feedstuffs (corn, sorghum, soybeans, soybean meal) as feeding of swine and other animals grew. The United States, often South Korea's sole supplier of these goods, faced more competition than usual in 1982. For political reasons Korea bought 34,000 tons of corn from Thailand. Despite an apparent higher cost, Korean industrial processors purchased 65,000 tons of white corn from South Africa. Although virtually all soybeans came from the United States, Brazil again shipped the largest share of meal to Korea, 60,000-70,000 tons, while the United States increased its meal exports from 16,000 tons in 1981 to 63,000 in 1982. Flagging demand for vegetable oil caused the increase in meal imports; the Government may take measures to increase domestic crushing and bean imports in 1982.

Rapeseed imports, from Canada and Brazil, increased modestly in 1982. Interest in feeding tapioca pellets in place of corn foundered on unfavorable price relationships; use of tapioca chips (almost 80,000 tons) in producing alcohol declined slightly. Drops in October 1982 in the corn price charged feed mills under the Feed Grain Price Stabilization Fund (from \$145 to \$135 per ton) are expected to stimulate further growth in feedstuff imports into early 1983.

Wheat trade declined slightly in 1982, mainly because imports for rice substitution were lower. Wheat flour imports from Canada and Australia (53,000 tons wheat equivalent) were a donation to workers on rural development projects and will not recur in 1983.

Imports of raw sugar declined in 1982 because of a drop in demand for Korea's exports of refined sugar. Mutton imports, destined for processing and reexport like much of the sugar, also declined.

Imports of meat and animals shot upwards in 1982, and are expected to be high in 1983. After an experiment with a complete ban on meat imports for the domestic market in 1980, Korea allowed Australian beef imports of 34,000 tons in 1981 and 66,000 tons in 1982.

U.S. agricultural exports to Korea remained primarily bulk commodities; 95 percent of the total value in fiscal 1982 came from grain, oilseeds and meals, tallow, hides, cotton, and tobacco, little changed from 96 percent in fiscal 1981. The changing nature of South Korea's society, the growth of income, and market development efforts were reflected, however, in some trade developments in 1982. Raisin imports, newly liberalized, more than doubled in volume and value, reaching almost \$6 million; 1983 levels may be lower, as the initial enthusiasm of buyers led to overpurchasing in 1982. Orange juice imports grew strongly, approaching \$4 million. Prepared food products trade remained low, largely because of trade barriers for products not for tourist use. Total U.S. agricultural exports, at \$1.6 billion, declined by 25 percent from fiscal 1981 to 1982; when the volatile rice trade is deducted, though, the decline is only 7 percent. The nonrice trade drop can be ascribed largely to falling prices for most commodities.

Korean agricultural exports to the United States declined by 19 percent in value from fiscal 1981 to 1982. Any stimulus from the depreciation of the won to canned mushroom export volume was offset by competition from the People's Republic of China. Mushroom exports declined by 66 percent. Trade in ginseng, canned mandarin oranges, and monosodium glutamate increased; these products accounted for 49 percent of the total value of U.S. purchases, \$25 million. Korean exports to other nations dropped as sugar and mutton processing and reexporting became less profitable. Korea's agricultural trade balance with the United States was \$1.582 billion in favor of the United States in fiscal 1982, equivalent to 6.6 percent of the total U.S. agricultural trade surplus.

Korea Targets Growth of 7.5 Percent in 1983

Agricultural trade prospects depend on Korean economic growth and agricultural performance in 1983.

All forecasts envision real growth for Korea's economy this year. The Government target is 7.5 percent; computer models of various firms and institutes project rates between 6 and 7.7 percent, generally below the target but above 1982 growth. The ROKG ties its target to expectations of growth in its trade partners, especially the United States. Hence, the Government expects Korean exports to increase 10 percent or more, leaving the trade deficit at \$2 billion, considered reasonable for Korea. This hope for growth through trade should prove to be favorable, on balance, to U.S. exports of agricultural raw materials, food, and feedstuffs, as keeping prices of these goods low will help Korean export competitiveness. A negative factor affecting trade will be continuing budgetary pressure to raise tariffs modestly on bulk commodities; the revenues would help reduce the Korean deficit resulting from a stimulatory tax cut. Inflation of 2 to 2.5 percent in wholesale and 3 to 4 percent in retail prices is forecast, despite a target increase of 18 to 20 percent in the money supply.

Agricultural import estimates for major food and feed categories are shown in table 17. A projected 11-percent increase in the total consumption of domestically produced livestock products, especially milk and poultry, is expected to increase feedstuff imports. If swine prices escape a sharp drop and world grain and oilseed prices remain low, the estimates presented here are likely to be exceeded. The U.S. trade share for feedstuffs should become larger; Thailand and South Africa will have less corn to sell in 1983, and Korea's likely switch from soy-meal to soybeans will favor the United States rather than Brazil.

Trade in live animals will remain brisk in 1983, as Korea imports 40,000 head of beef breeding cattle, 20,000 feeder cattle, and 10,000 dairy breeding animals. Since a substantial number of the beef animals are to be Charolais breeding stock, the United States will probably be in a favorable position to capture much of this trade.

Imports of wheat should increase slightly. Soybean imports may exceed 700,000 tons. Rice imports to fulfill 1981 agreements are expected to total 221,000 tons; no further imports are expected in 1983 unless the October harvest falls below 5.2 million tons. [John Dyck (202) 447-8229]

Table 17.—Agricultural imports of Korea, calendar 1982 and 1983 estimates

	1982		1983	
	Total	U.S. share	Total	U.S. share
1,000 tons				
Cotton	344	325	345	320
Corn	2,978	2,889	3,250	3,250
Wheat	2,023	1,970	2,000	2,000
Sugar	620	0	600	0
Hides and skins	135	115	150	128
Wool	30	0	30	0
Soybeans	550	550	725	725
Beef	67	1	58	1
Natural rubber	126	0	130	0
Rice	271	259	223	221
Inedible tallow	150	75	155	80
Cattle				
(1,000 head)	40	8	70	33
Palm oil	82	0	100	0
Tobacco	4	0	4	0

TAIWAN

Growth in 1982 Unusually Slow

Worldwide recession and sluggish demand slowed Taiwan's economic growth during the first 3 quarters of 1982. The economic growth rate steadily declined during the year. The Government estimated 3.8 percent real GNP growth, the lowest since the 1973-74 oil crisis and far below the average annual growth of 9 percent that Taiwan has enjoyed for the past 30 years. Taiwan's industrial production reflected the overall slowdown, decreasing 0.9 percent in the first 9 months of 1982, compared with a 5.3-percent increase during the same period of 1981. Foreign investment rose almost 30 percent from a year earlier to \$322 million, largely because of major Japanese hotel projects, but overall total investment by foreign and local sources dropped 1.6 percent.

Inflation was down in Taiwan, primarily because of slack demand and stable commodity prices, with a moderate increase in the consumer price index and a drop of almost 1 percent in the wholesale price index. Per capita income rose very slightly. Unemployment remains very low but underemployment has increased, especially in the agricultural sector, where small farms are absorbing family members who do not have other jobs. The unemployment rate in 1982 averaged 1.4 percent.

To spur the economy, policymakers have instituted a number of programs aimed at stimulating private investment and exports via monetary policy and lower interest rates. The prime rate has been lowered seven times in the last 12 months, from 15.25 to 9.75 percent. Tax credits have been offered to investors, low interest loans

have been made available to machinery buyers, machinery import duties were reduced by half, and the 1974 ban on housing loans was lifted. However, because of the virtual absence of consumer financing, weak demand at home and abroad, and the existence of about 25 percent excess capacity, these policy stimuli have not had the desired effects on the economy.

Taiwan's total trade was about \$41 billion in 1982, with a \$3.3-billion surplus. Total exports—dominated by textiles, electrical appliances, electronic goods, and processed agricultural goods—declined 2 percent in 1982. Imports are primarily raw materials, both agricultural and industrial. With slower growth in the economy, imports of raw materials fell by 9 percent during 1982.

Taiwan continues to be an important trading partner of the United States: the 14th largest purchaser of U.S. exports, the 8th largest source of imports into the United States, and the 8th largest trading partner in two-way trade. From Taiwan's viewpoint, the U.S. is the largest trading partner, buying over 39 percent of Taiwan's exports and supplying 25 percent of Taiwan's imports.

Taiwan's exports to the United States totaled almost \$9 billion in 1982, while imports from the U.S. totaled \$4.4 billion, leaving a \$4-billion surplus in Taiwan's favor.

Agricultural Output Down Slightly

Taiwan has faced a declining trend in agricultural production for the last few years. The decline results from high fuel costs, labor shortages, lack of grain storage, and occasional bad weather. Taiwan's economy is also in

the course of shifting from an agricultural to an industrial base. The GNP share contributed by agriculture has been going down steadily—from 15 percent in 1975, to 9 in 1980, to 8 in 1982. In 1982 total agricultural production fell about 1 percent and crop production declined about 2 percent, but livestock, including poultry, rose about 4 percent.

Production of rice, the major food crop, declined about 2 percent to 2.16 million tons in 1982. The Government has been trying to reduce rice production for the last few years, because Taiwan produces more than it needs. Carry-over rice stocks, which have risen to more than 1.1 million tons, are choking storage facilities, and are well in excess of the 500,000 tons generally accepted as adequate. In order to reduce stocks, Taiwan is exporting rice well below the cost of procurement. In addition, the Government has taken several steps to reduce excess production of rice. Steps include raising guaranteed prices for corn, soybeans, and sugar, and abolishing the compulsory purchase of rice in lieu of payment of the land tax. Recently the Government announced a new "1983 rice diversion program." Under this program farmers will receive about \$250 per hectare for paddy land which will lie idle for a year. Taiwan expects to bring 72,800 hectares under this program.

Sugarcane Harvest Declines

Production of sugarcane, a major export crop, is estimated at 7.8 million tons for 1982, down more than 2 percent from the previous year. With a growing season as long as 14 months and relatively low returns, sugarcane is less attractive to farmers than other cash crops. In addition, farmers continue to face a labor shortage at harvest time. These two factors are expected to continue the trend of declining cane production despite annual increases in the guaranteed price paid to farmers.

Corn Production Rises

Although the guaranteed purchase price has been raised, farmers have not responded by rapidly increasing area planted to corn, primarily because expansion must come from already cultivated land, mainly paddy rice land. A switch from paddy to field crops would require major changes in infrastructure, equipment, and farming techniques. Nevertheless, corn production rose to about 110,000 tons in 1982, up 14,000 tons from 1981. Taiwan also produces sorghum, barley, and millet, but not enough to meet domestic needs.

Vegetable Output Up 3 Percent

Taiwan is self-sufficient in vegetables. Vegetable production, including asparagus, mushrooms, and tomatoes, rose about 3 percent in 1982 to 3,000,000 tons. The vegetable area, second largest in crop production, increased from 320,000 to about 330,000 hectares in 1982. The 1982 crops of soybeans, peanuts, pulses, and tobacco were about 20,000, 80,000, 55,000, and 23,000 tons, respectively.

Poultry and Dairy Industries Lead Livestock Sector Growth

Taiwan's livestock industry grew during 1982 because of favorable feed grain prices. Total meat production increased from 891,000 tons in 1981 to about 916,000 in 1982. About 70 percent of the meat produced is pork,

which rose about 1 percent from the previous year. Poultry meat production rose about 9 percent, to 250,000 tons. Milk production increased from 150,000 tons in 1981 to 160,000 in 1982, while egg production grew almost 7 percent, to 160,000 tons.

Agricultural Exports Grew Slightly in 1982

Because of a depressed world economy, Taiwan's foreign trade slowed down considerably in 1982. But exports of principal agricultural commodities during the first 10 months were \$466 million, up 1 percent, because of higher mushroom and banana exports. Taiwan's earnings from sugar, the major export commodity, declined sharply in 1982. The main reason was that Taiwan's two principal buyers, Japan and South Korea, reduced their imports during the first 10 months—Japan by 14 percent and South Korea by 55 percent. Only Saudi Arabia increased its imports—by 69 percent to 60,000 tons—in the same period.

Asparagus, the second most valuable export commodity, brought foreign exchange earnings of \$81.2 million during the first 10 months of 1982, about 11 percent lower than the same period of 1981. Major buyers were West Germany, the United States, the Netherlands, Sweden, Japan, and Singapore. Rice, Taiwan's third leading agricultural export, is preliminarily valued at \$52 million for 1982. Of the 307,000 tons shipped, nearly half went to Sri Lanka and Indonesia. Mushroom exports during January-October reached \$71 million, up 27 percent from the same period a year earlier; Taiwan upgraded its techniques in production, packaging, and canning of mushrooms during the middle of 1982. The major buyers of Taiwan's mushrooms were Canada, West Germany, the United States, Japan, Singapore, and Hong Kong. Banana exports in January-October brought about \$40 million, compared with \$24 million for the same period of 1981.

Japan is the major buyer of Taiwan's frozen pork. In the first 10 months of 1982, Taiwan's frozen pork exports went down 2 percent to \$61 million, chiefly because of a decline in exports to Japan. Taiwan's exports of other major commodities during January-October were tea, valued at \$13 million; pineapple, \$7.3 million; and citrus fruits, \$6.4 million.

Agricultural Imports Decline— But In Value, Not Volume

Taiwan's total imports declined 9 percent from 1981. Imports of major agricultural commodities dropped from \$2.17 billion in January-October of 1981 to \$1.9 billion in the same period of 1982.

Taiwan's agricultural import value declined because of lower corn imports and a lower import price for soybeans. Corn imports during January-October totaled 1.085 million tons, down 5 percent from the same period a year earlier, as large quantities of imported sorghum were substituted for corn. Sorghum enjoyed a favorable import price, relatively free application for import, and—unlike corn—exemption from price stabilization fund contributions. This resulted in the decline in corn imports, although total feed grain imports rose. The value of soybean imports declined sharply from \$312 million in January-October 1981 to \$288 million in the same period of 1982. The unit value dropped about 8 percent, but total imported quantity between January-October 1981 and 1982 did not change. Overall it is estimated that

Taiwan's 1982 soybean imports increased over 4 percent from 1981 imports of 1.113 million tons.

Added Wheat-Processing Capacity Boosts U.S. Export Prospects

Several new biscuit plants were completed and commenced operation in the middle of 1982, increasing wheat use. The Taiwanese are using more wheat products in their daily diet. Consequently, Taiwan's wheat imports during January-October 1982 rose to 618,300 tons valued at \$125 million, compared with 460,000 tons valued at \$108 million in the same period of 1981. In addition, the Government is encouraging the modernization and expansion of many kinds of food-processing plants, with the aim of increasing domestic output of products now being imported.

Major U.S. agricultural exports to Taiwan consist of wheat, corn, soybeans, cotton, tallow, hides and skins, and tobacco. Total U.S. agricultural exports to Taiwan rose from \$1.105 billion in fiscal 1981 to almost \$1.166 billion in fiscal 1982. U.S. corn exports rose to 1.717 million tons from 1.050 million exported in 1981. U.S. corn prices were \$135 per ton, compared with \$157 in 1981. As a result, U.S. corn earnings dropped from \$236 million in 1981 to \$231 million in 1982. U.S. soybean exports during 1982 were 1.05 million tons, virtually unchanged from 1981. Because of lower soybean export prices, earnings dropped dramatically—from \$320 million in 1981 to \$284 million in 1982. The United States is the sole supplier of Taiwan's soybean imports.

U.S. wheat exports to Taiwan rose from 605,000 tons in 1981 to 658,000 in 1982. Taiwan also imported 28,350 tons of wheat from Canada and 25,000 from Uruguay. Canada continues to press the Taiwan Flour Millers Association to buy; however, the association is expected to favor U.S. wheat at least through the 5-year purchasing agreement ending in 1985/86. The U.S. share of the total Taiwanese wheat imports was about 88 percent in 1982, down from 100 percent in 1981.

For the last few years, Taiwan has been an attractive market for U.S. apples. Taiwan's imported apple market has grown fast—from 8,700 tons in 1978, to 56,400 tons in 1980, to 75,400 tons in 1981. The U.S. share of Taiwan's imported apple market is almost 96 percent.

The value of U.S. agricultural imports from Taiwan rose faster than that of U.S. exports to Taiwan. Imports advanced 29 percent to \$177 million in 1982, compared with \$137 million in 1981. Major items were canned vegetables and canned fruits, including canned mushroom imports of \$42 million, tomato paste at \$18.5 million, bamboo shoots at \$15.3 million, water chestnuts at \$8 million, and canned oranges at \$6.8 million. Other high-priced imports by the United States were monosodium glutamate at \$7.3 million, tea at \$4.8 million, and rubber latex at \$2.8 million.

Economic Growth To Quicken in 1983

The prospects for Taiwan's economy in 1983 are somewhat uncertain. Since the economy is based on foreign trade it depends heavily on the economic health of its major trading partners, the United States, Japan, and Western Europe. The Government plans to reduce interest rates further and relax other monetary policies in 1983 to boost growth. It projects 5.5-percent growth for the year, including manufacturing industry growth of around 5.4 percent and service industry of about 6 percent. The GNP is expected, according to Government forecasts, to rise to about \$48 billion, up from \$46 billion in 1982. Per capita income is expected to reach \$2,700 in 1983, and the rate of inflation is forecast at 5-6 percent. The Government plan calls for an export growth rate of about 4 percent and an import increase of around 5 percent.

The official forecast for agricultural growth in 1983 is about 2 percent. The Government goal for rice production is set at about 2 million tons. Taiwan is encouraging farmers to reduce rice land and production. A decline in planted area is expected in response to the newly announced 1983 rice diversion program.

Agricultural exports in 1983 are expected to increase gradually, with a large increase possible in exports of canned fruits and vegetables. Export prospects for frozen pork are uncertain. Present indications show continued sluggishness in pork exports to Japan. This is despite earlier expectations that there would be strong growth in the beginning of 1983 because of the absence of Denmark, which is usually a major supplier to the Japanese pork market.

Feed Grain Imports To Rise

Imports of feed grains are forecast at about 3.5 million tons in fiscal 1983. Corn imports, which are expected to rise sharply because of projected low corn prices and an improved price relationship to sorghum, are forecast at 2.8 million tons. In addition to higher corn use in feeds, some stock rebuilding is anticipated, barring a major runup in corn prices. A lower import volume from South Africa and difficulties with Thai corn should boost the U.S. share of Taiwan's corn imports. This may put fiscal 1983 corn imports from the United States at around 2 million tons. Soybean imports are expected to rise in response to lower prices resulting from the large world soybean crop. The low prices will stimulate consumption of soybean oil and make soybean meal more competitive with fish and bone meal in feed rations. Wheat imports are forecast to expand around 8 percent in 1983 as consumption of bakery products and noodles continues to grow. Most of the grains will come from the United States, since Taiwan favors U.S. grains' quality and steady availability. [Amjad H. Gill (202) 447-8229]

**Table 18.—Population, gross national product, and international reserves
in East Asia, 1981-1982, with estimates for 1983**

Country	Population				Gross national product			International reserves		
	1981	1982	1983	Growth rate 1981 to 1982	1981	1982	1983	1981	1982	1983
	<i>Millions</i>			<i>Percent</i>	<i>Million dollars</i>					
Hong Kong	5.1	5.3	5.4	2.5	22,195	22,728	23,637	7,000	7,000	7,000
Japan	117.2	118.1	119.1	.8	1,013,141	1,058,237	1,130,197	28,403	23,262	24,000
Korea, Rep. of	38.7	39.3	39.9	1.6	62,102	65,994	73,300	6,891	6,980	7,300
Taiwan	17.7	18.5	18.8	1.8	44,904	45,600	48,120	10,500	11,500	12,000
Total	178.7	181.2	183.2	1.1	1,142,342	1,192,559	1,275,254	52,794	48,742	50,300

Sources: ERS estimates from country and FAS sources.

**Table 19.—Agricultural contribution to GNP, change in real GNP, and change
in consumer price index (CPI) in East Asia, 1981-1982, with estimates for 1983**

Country	Agricultural contribution to GNP			Change in real GNP			Change in CPI		
	1981	1982 ¹	1983	1980/ 1981	1981/ 1982 ¹	1982/ 1983	1980/ 1981	1981/ 1982 ¹	1982/ 1983
	<i>Percent</i>								
Hong Kong	1.0	1.0	1.0	10.6	2.4	4.0	15.4	10.5	7.0
Japan	4.7	4.3	4.3	3.0	2.5	3.5	4.9	2.7	3.3
Korea, Rep. of	15.0	15.5	15.0	6.4	5.4	7.5	23.3	7.3	3.5
Taiwan	8.7	8.0	8.0	6.8	3.8	4.0	10.0	6.0	6.0

¹Preliminary data.

Sources: ERS estimates from country and FAS sources.

Table 20.—Total exports and imports, average 1978-80 and annual 1981-83¹

Country	Exports				Imports				Trade balance			
	1978- 1980	1981	1982	1983	1978- 1980	1981	1982	1983	1978- 1980	1981	1982	1983
	<i>Billion dollars</i>											
Hong Kong	15.2	20.4	19.6	21.9	17.4	23.2	22.1	24.6	-2.2	-2.9	-2.5	-2.7
Japan	110.1	149.5	137.7	147.3	100.6	129.6	119.5	125.4	9.5	20.0	18.2	21.9
Korea, Republic of	15.1	21.3	21.0	23.5	19.2	26.1	24.3	25.5	-4.1	-4.8	-3.3	-2.0
Taiwan	16.2	21.8	22.2	23.3	15.2	20.5	18.9	20.4	1.0	1.3	3.3	2.9
Total	156.6	213.0	200.5	216.0	152.4	199.4	184.8	195.9	4.2	13.6	15.7	20.1

¹Preliminary data for 1982, estimates for 1983.

Sources: International Financial Statistics, various country sources; ERS estimates.

Table 21.—Agricultural exports and imports, East Asia, 1980-82

Country	Exports			Imports			Trade balance
	1980	1981	1982	1980	1981	1982	1982
	<i>Million dollars</i>						
Hong Kong	651	918	900	3,500	3,400	3,700	-2,800
Japan	881	1,106	1,022	17,670	18,600	16,323	-15,301
Korea, Rep. of	700	741	552	2,990	4,250	2,949	-2,397
Taiwan	1,700	1,670	1,151	2,750	3,057	2,591	-1,440
Total	3,932	4,435	3,625	2,691	29,307	25,563	-21,938

Sources: Food and Agricultural Organization (FAO), United Nations; Foreign Agricultural Service, USDA; various country sources; ERS estimates.

Table 22.—U.S. agricultural exports and imports to East Asia, 1980-82

Country	Exports			Imports			Trade balance
	1980	1981	1982	1980	1981	1982	1982
<i>Million dollars</i>							
Hong Kong	437	394	392	42	49	43	349
Japan	6,111	6,562	5,547	99	121	129	5,418
Korea, Rep. of	1,797	2,008	1,581	48	31	24	1,577
Taiwan	1,095	1,145	1,155	155	136	175	980
Total	9,440	10,109	8,675	344	337	371	8,304

Sources: U.S. Bureau of Census, Department of Commerce; calendar year.

Table 23.—Major U.S. agricultural exports to East Asia by SITC categories, quantity and value, fiscal 1981-83

Country and year	Poultry meat		Inedible tallow		Cattle hides		Other animal products and live animals		Wheat and products		Rice		Feed grains	
	<i>1,000 Tons</i>	<i>1,000 dollars</i>	<i>1,000 Tons</i>	<i>1,000 dollars</i>	<i>1,000 Tons</i>	<i>1,000 dollars</i>	<i>1,000 dollars</i>		<i>1,000 Tons</i>	<i>1,000 dollars</i>	<i>1,000 Tons</i>	<i>1,000 dollars</i>	<i>1,000 Tons</i>	<i>1,000 dollars</i>
Hong Kong														
1981	21508	24125	0	0	140	7709	20964	113668	22170	497	253	284	100	
1982	27363	28404	0	0	125	7330	20953	119495	21015	69	39	530	228	
1983	30000	31140	0	0	150	8000	14969	122000	19380	100	51	500	215	
Japan														
1981	63444	80786	90922	41646	7479	256002	521502	3415418	635269	1160	519	15574547	2437051	
1982	55580	68456	71880	35041	6458	208699	543435	3318113	564105	392	23	13392360	1577741	
1983	55000	66770	70000	34580	7000	219800	528850	3300000	521400	400	216	14345000	1562850	
Korea, Rep. of														
1981	0	0	93237	41073	3492	115084	43729	2060170	366931	1173333	506012	2377860	365226	
1982	0	0	59231	25506	4216	132408	41027	1930479	309988	293467	83152	3113194	376191	
1983	0	0	75000	30800	4700	141000	72600	2000000	310000	246000	71300	3300000	369600	
Taiwan														
1981	133	196	32092	13641	1197	39736	19195	604881	115473	25	24	2124335	331847	
1982	189	277	36573	14784	1633	51456	20538	662882	115600	0	0	2262098	301202	
1983	200	220	60000	27000	2500	75000	22780	750000	120000	0	0	3150000	320000	
Total														
1981	85085	105107	216251	96360	12308	418531	605390	6194137	1139843	1175015	506808	20077026	3134224	
1982	83132	97137	167684	75331	12432	399893	625953	6030969	1010708	293928	83214	18768182	2255362	
1983	85200	98130	205000	92380	14350	443800	639199	6172000	970780	246500	71567	20795500	2252665	
Country and year	Fruits, nuts, and preparations		Vegetables and preparations		Soybeans		Oilcake and meal		Tobacco		Raw cotton		Other	Total
	<i>1,000 dollars</i>		<i>1,000 dollars</i>		<i>Tons</i>	<i>1,000 dollars</i>	<i>Tons</i>	<i>1,000 dollars</i>	<i>Tons</i>	<i>1,000 dollars</i>	<i>Tons</i>	<i>1,000 dollars</i>	<i>1,000 dollars</i>	<i>1,000 dollars</i>
Hong Kong														
1981	110808		27673		0	0	214	84	1806	9476	43478	73578	90643	387583
1982	110055		30422		0	0	86	28	1946	11327	60317	76507	96332	402640
1983	119500		33000		0	0	200	65	2000	11642	75000	95100	108105	441167
Japan														
1981	335298		145830		3849303	1181137	156143	46461	44129	237470	248142	477030	309968	6705969
1982	324935		174822		4184124	1040413	51820	11584	49359	289784	361086	533898	339510	5712446
1983	340000		166000		4200000	945000	60000	11580	50000	294000	344000	512560	396394	5600000
Korea, Rep. of														
1981	7392		4964		467342	145253	16612	4256	4411	36169	275513	481276	19106	2136471
1982	11061		3399		552256	139035	64023	14923	936	7942	321703	441807	20454	1606893
1983	12000		7000		620000	141100	50000	10500	500	5000	307000	425770	16770	1612670
Taiwan														
1981	55486		10219		1043176	319968	386	108	6005	35864	71750	110224	53211	1105192
1982	36633		9127		1050257	284091	238	54	9957	62561	176071	213661	55996	1165980
1983	57000		15000		1250000	287500	0	0	20000	117000	130000	180310	53782	1349032
Total														
1981	508984		188686		5359821	1646358	173355	50909	56351	318979	638883	1142108	472928	10335215
1982	482684		217770		5786637	1463539	116167	26589	62198	371614	919177	1265873	512292	8887959
1983	528500		221000		6070000	1373600	110200	22145	72500	427642	856000	1213740	575051	9002869

Sources: 1981 and 1982: Bureau of the Census, U.S. Department of Commerce; 1983: ERS estimates.

U.S.-JAPAN AGRICULTURAL TRADE ISSUES IN PERSPECTIVE¹

When Japan's newly elected Prime Minister Yasuhiro Nakasone visited the United States in January, Japanese import restrictions on beef, oranges, and citrus juice were given about the same prominence in discussions as Japan's defense policy. "Beef and citrus," now the principal U.S.-Japan agricultural trade issue, has come to symbolize the closed character of the Japanese market.

The irony is that Japan, next to the Soviet Union, was the world's largest net importer of agricultural products in 1982—importing \$16.4 billion. The United States supplied 39 percent of the total, mainly in bulk commodities such as feedstuffs, cotton, tobacco, and hides (figure A). Criticism of the Japanese agricultural market, however, is usually leveled at policies that distort trade in value-added products and food grains. Beef and citrus are among these products.

Although "beef and citrus" is the main agricultural trade issue today, it certainly is not the only one. Japanese agriculture, perhaps the most inefficient sector in Japan's economy, is protected across a broad front.

Japan provides large support payments to keep land, labor, and capital resources in agricultural production. The country maintains high support prices in large part by insulating its agriculture from international competition in a variety of trade-distorting ways.

Imports of wheat and rice, for example, are strictly managed by the Government's Food Agency. Import quotas are imposed on 19 different agricultural products, some of rather minor importance (see table A). Ad valorem tariffs, relatively low or zero on bulk commodities such as feed grains and soybeans, range up to 40 percent on higher value items such as fresh and processed fruits and vegetables. Plant and animal quarantine regulations as well as a relatively inefficient marketing system also tend to keep retail prices high and limit import demand.

Besides restrictions on beef and citrus, some of the more important Japanese restrictions and policies affecting U.S. agricultural interests include:

¹This assessment contains projections based on research conducted by the author.

Figure A.
Japanese Agricultural Imports

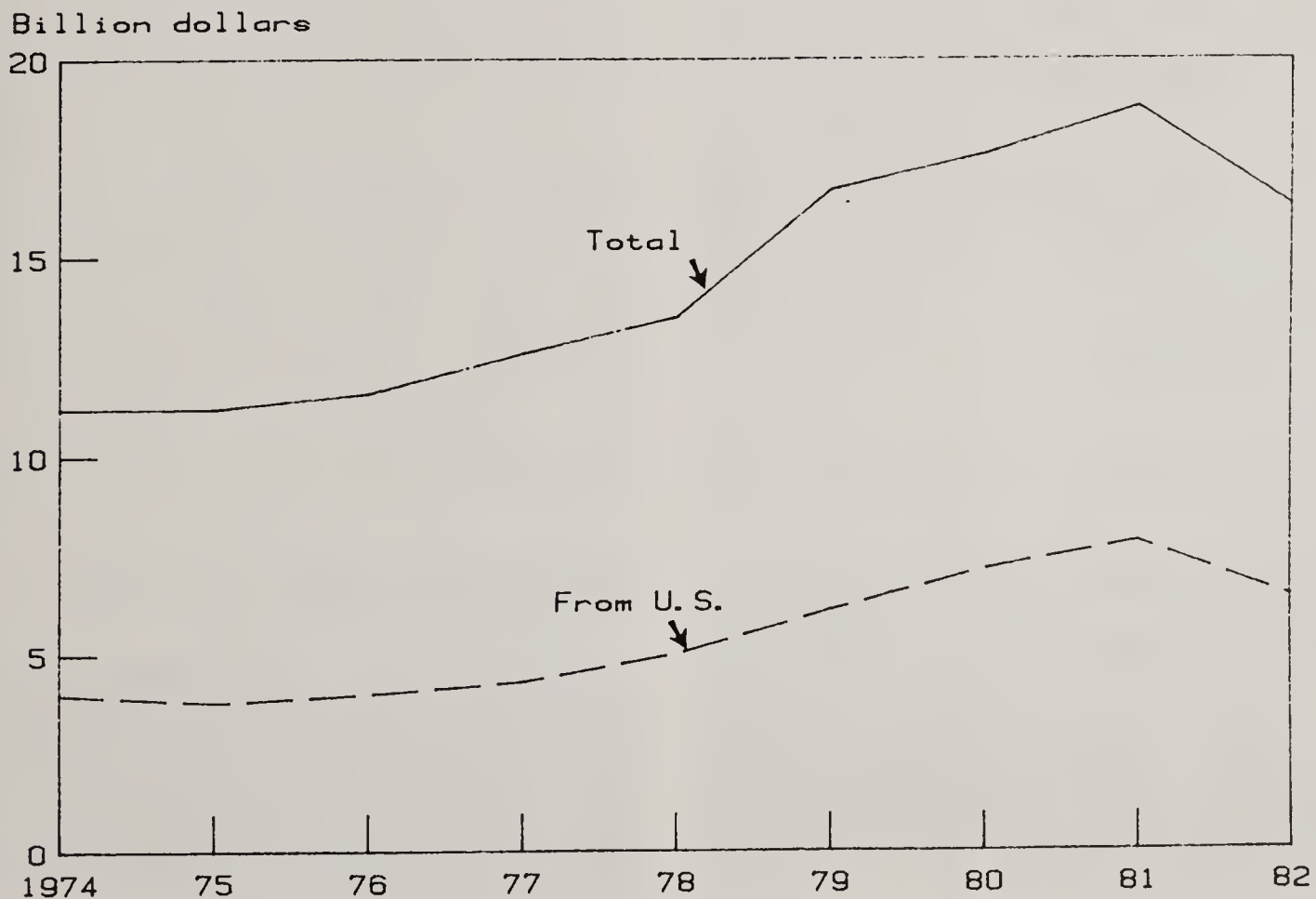


Table A.—Japan: agricultural products subject to residual imports restrictions, 1982

Item	CCCN Code	Imports value, c.i.f.	
		Total	From the U.S.
Million dollars			
Livestock			
Meat of bovine animals	0201	384	133
Milk and cream (fresh)	0401	—	—
Milk and cream (pre-served, concentrated, or sweetened)	0402	115	6
Processed cheese, curds, and other materials for making cheese	0404	—	—
Prepared or preserved bovine or pig meat in air-tight containers	1602	18	1
Fruits and Vegetables			
Oranges and tangerines (fresh)	0802	74	74
Oranges and tangerines (temporarily preserved)	0811	—	—
Fruit puree and fruit pastes	2005	1	—
Canned pineapple and fruit pulp (excluding apricot and nuts)	2006	19	1
Fruit juices and tomato juice	2007	25	16
Tomato ketchup and sauce	2104	2	1
Sugar and starches			
Starches and insulin	1108	29	—
Grape sugar, lactose, etc.	1702	42	4
Grain			
Flour of wheat, rice, and barley	1101	—	—
Groats and meal of wheat, rice, and barley	1102	1	—
Other			
Small red beans, broad beans, peas	0705	94	16
Ground nuts (except for vegetable oil)	1201	50	17
Tubers of konnyaku and edible seaweed	1208	3	—
Food preparations containing added sugar, milk, wheat, etc.	2107	28	11
Total		885	274

— = none or negligible

Source: Ministry of Finance, *Japan Exports and Imports*, 1982.

- Food Agency control of imported wheat, resulting in high resale prices and reduced import demand.
- A surplus rice disposal program during 1979-1984. Japan's exports of surplus rice compete with U.S. rice in third markets. Subsidized use of surplus rice in formula feed displaces imported corn and/or sorghum on nearly a one-to-one basis. Japanese rice exports are now monitored and limited to about 400,000 tons per year as a result of the U.S.-Japan Rice Agreement of April 1980.
- A variable levy on pork.

Small-Scale Units Characterize Japanese Agricultural Production

Japan protects its agriculture because of the inefficiency of its small-scale units. Preservation of an agricultural base in Japan, as in many countries, is perceived to be in the national interest. That interest is articulated by the Liberal Democratic Party (LDP), in power since 1955. Much of its strength comes from rural districts which were delineated after World War II and reflect the predominantly rural character of the country that existed then. Despite tremendous urban migration,

there have been few changes in voting districts, leaving rural areas with a disproportionate amount of political power in the country's parliament (Diet). Rural political power has led to the enactment of various farm programs, which have often restricted imports and have, in general, improved the welfare of rural people. Benefits from growth in employment opportunities in the nonfarm sector have even been greater. Most farmers in Japan are now part-time and derive about 80 percent of their income from off-farm employment.

It is not only the LDP, backed by its rural constituency, that has lobbied for protection of Japanese agriculture. Other political parties to a greater or lesser extent support protection of agriculture. Many urban residents still have close family ties with rural areas and identify with rural issues.

Where rural welfare and agricultural protection have become synonymous, food security and food self-sufficiency have as well. Food shortages and hunger during and immediately after World War II are clearly remembered by the older population. Japan's concern about its limited agricultural resources and about dependence on other countries for something as basic as food goes back many years and continues to sustain an intense interest in maximizing food self-sufficiency. A Japanese cabinet minister said in 1898 that "independence of food is more urgent than the independence of arms."

Debate on Beef and Citrus Goes Back More Than a Decade

Japan, particularly through the sixties and early seventies, moved toward greater openness through reduction in tariffs and elimination of nontariff barriers. In recent years, however, it has done little to open up its agricultural market further. Since 1974 it has maintained import quotas on 27 commodities, 19 of which are agricultural—more than any other developed market economy except France. Import quota restrictions are widely criticized and, in general, considered a violation of the GATT.

The beef and citrus issue also symbolizes a longstanding irritation in the bilateral relationship; from the U.S. point of view, the issue continues unresolved. In the late 1960's, import quotas on beef and citrus were high on the United States' list of items requiring prompt and favorable action by the Japanese. Intense negotiations in 1977 and 1978 for their removal led to a 5-year agreement under the MTN that provided only partial liberalization of the Japanese beef, orange, and citrus juice markets. As the end of that agreement (March 31, 1984) nears, beef and citrus have once again become prominent in bilateral discussion. The most recent negotiations, held in Honolulu last October, reached an impasse and ended a day early, contributing to continued frustration on both sides.

The economic interest in beef and citrus stems from expected gains that would result from market liberalization. Since partial liberalization in 1977, U.S. exports to Japan of beef, fresh oranges, and citrus juice have increased from \$60 million to more than \$200 million in 1981 (table B). Together they made up 3.0 percent of U.S. agricultural exports to Japan during 1979-81, compared with 1.1 percent during 1974-76. More significantly, these commodities are value-added products, and liberalization of these markets would enable the United States to enhance its share of the value-added component

of its agricultural trade with Japan, thus expanding the impact of these exports on the rest of the U.S. economy.

Conservative estimates suggest that, with removal of import quotas on beef, oranges, and citrus juice (table C), the United States could increase its net exports of agricultural products to Japan by \$300-\$350 million. These estimates consider the impact of sharply lower Japanese retail beef prices on the Japanese pork and poultry sectors and corresponding effects on import demand for grain and oilseeds. About 90 percent of the estimated increase would be in beef, which would expand U.S. demand for feed by \$250-\$300 million.

Japanese Beef Producers Have Disproportionate Political Clout

The estimates envision greater trade expansion for beef than citrus for the simple reason that the Japanese beef industry is woefully inefficient while the Japanese citrus industry is relatively efficient. Japanese beef production is characterized by small-scale, high-cost operations. Average herd size is about six animals. Even though Japanese beef production is generally a sideline activity accounting for relatively little farm income, beef producers have succeeded in obtaining substantial Government protection, much more so than poultry and pork producers. This has led to high retail and wholesale beef prices and consumption that is about one-tenth the per capita level in the United States (figure B and tables 8 and 9 at the beginning of this report). The political success of Japanese beef producers is attributable to their large number (about 340,000) and to the industry's increasingly close ties with the highly protected dairy industry. The country's 100,000 dairy producers earn 10-20 percent of their income from the sale of culls and steers for beef production. In addition, the farm cooperative Nokyo, with sizable investments in slaughter, processing, and input supply industries, has a large economic stake in protecting local beef production.

Turning to citrus, we find a very different situation. The Japanese citrus industry, although going through some adjustment problems, is much more competitive than the Japanese beef and rice industries. Japanese wholesale prices of mandarins (the main citrus fruit produced) are consistently below landed prices of U.S. oranges except during the summer months. Furthermore, Japan has been able to export modest quantities of fresh and canned mandarins as well as mandarin juice and drink.

Compared with other countries, Japan already consumes a great deal of citrus. The top U.S. market, Canada, and other developed countries consume fewer oranges and mandarins and less total citrus per capita than the Japanese. Japanese consumption of citrus as a percent of total per capita fruit consumption (including juice and other processed products) is very close to levels in the United States. When availability of domestic citrus falls off during the summer months, Japanese consumers purchase substantial quantities of other fresh fruits. Peaches, pears, watermelon, bananas, and domestic summer oranges are among the more cheaply priced varieties.

Japanese Citrus Market Is Less Promising

Japanese consumption of U.S. oranges and citrus juice would increase under a free trade situation, but not as dramatically as beef. The Japanese retail price of U.S.

Table B.—U.S. exports to Japan of beef, fresh oranges, and citrus juice, 1971-81

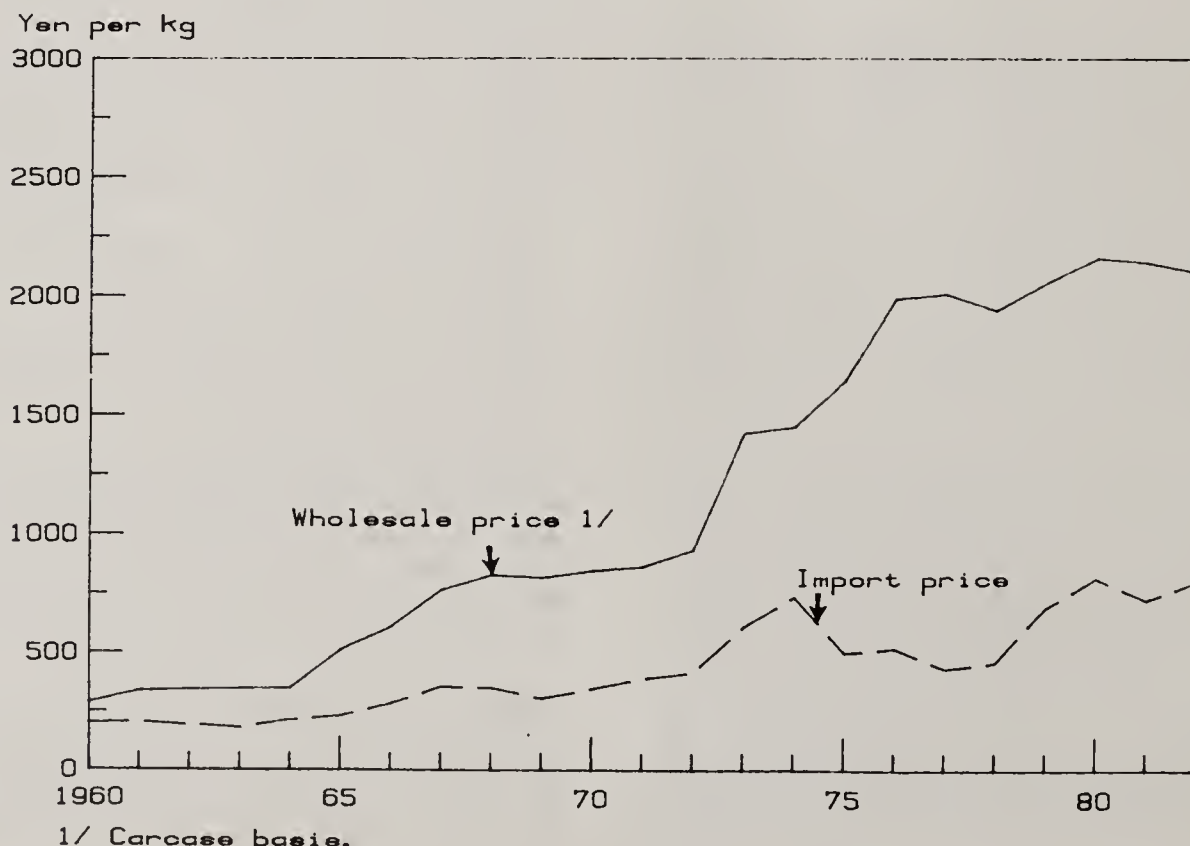
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
<i>Million dollars</i>											
Beef, fresh chilled and frozen	1.5	2.0	35.0	17.8	26.3	42.2	52.4	95.8	129.1	131.1	155.9
Oranges, fresh	2.3	3.8	4.2	4.3	7.7	8.1	7.4	22.4	29.0	27.8	44.4
Orange juice	.1	.3	.2	.7	.1	1.0	1.6	1.8	2.4	1.4	1.1
Grapefruit juice	.1	.2	.4	.3	.3	.7	.9	1.5	2.6	3.9	7.7
Total	4.0	6.3	39.8	23.1	34.4	52.0	62.3	121.5	163.1	164.2	209.1
Total U.S. ag exports to Japan	1,072.9	1,427.3	2,997.2	3,478.3	3,081.6	3,563.1	3,856.8	4,435.3	5,255.3	6,110.7	6,562.3
percent	.4	.4	1.3	.7	1.1	1.5	1.6	2.7	3.1	2.7	3.2

Table C.—Japan: imports of beef, oranges, and citrus juice in the absence of import quotas

	1979-81	U.S. share 1979-81	Baseline 1990	In absence of quotas, 1990	Change over baseline	U.S. share of increase	
						Quantity	Value
				<i>Tons</i>			<i>Million dollars</i>
Beef ¹	178,091	34,493	455,000-537,000	1,348,000-1,600,000	893,000-1,063,000	179,000-213,000	\$280-\$296 ²
Oranges	67,000	66,604	86,000	114,000-171,000 ³	28,000-85,000	28,000-84,000	14-42
Orange juice	4,500	1,240 ⁴	6,800	9,000-13,500 ³	2,200-6,700	330-1,000	1- 2
Grapefruit juice	2,700	2,540 ²	6,300	8,400-12,500 ³	2,100-6,200	2,000-5,900	4-12
Change in U.S.-Japan bilateral trade							\$300 - 352
Value of grain and soybeans required to support the increase in U.S. beef exports							\$244 - 290

¹Carcass basis. ²Accounts for the impact of sharply lower Japanese beef prices on the Japanese pork and poultry sectors and corresponding effects on demand for grain and oilseeds. Unadjusted value of assumed additional U.S. beef exports would be \$562-670 million. ³Assumes a 33-percent drop in retail prices and a range of price elasticities of -1.0 to -3.0. ⁴The U.S. share is calculated on the basis of value. Volume is the 1979-81 average of quota levels (on a Japan fiscal year basis) agreed to in the U.S.-Japan Beef and Citrus Agreement of Dec. 5, 1978.

Figure B.
Japanese Beef Prices, 1960-1982



oranges and citrus juices would decline. In the case of oranges, the decline would probably be about 30 percent, as more importers and retailers entered the business and competed for the high profits that in past years have accrued to a relatively few quota holders (about 95 firms, with the top 10 controlling 50 percent of imported oranges). How Japanese consumers would respond to a 30-percent drop in the retail price of imported oranges is the key question. Ignoring the prices of other fruits and assuming a price elasticity of -1.0 to -3.0 in demand for imported oranges, total demand would increase by 30 to 100 percent, with practically all of the increase supplied by the United States.

The market potential for citrus juice is more difficult to gauge because pure, unblended orange juice currently is not available in Japan. In addition, a somewhat com-

petitive citrus processing industry exists in Japan, as demonstrated by modest exports of juice and fruit drink. After removal of quotas in September 1971, the market for imported lemon and lime juice experienced only limited growth, rising to about \$3 million in 1981 with a 50-percent U.S. share. However, consumers might respond quite favorably to the availability of unblended and unrestricted imports of orange juice. By retaining the identity of U.S. orange juice at the retail level, the U.S. share of imported orange juice might improve from its low 1982 level, but cheaper Brazilian juice would probably capture the biggest market share. Market potential for U.S. grapefruit juice would be slightly better because of less third-country competition. [William T. Coyle (202) 447-8860]

TAIWAN: AN EXPORT MARKET PROFILE¹

Summary of New ERS Research

Taiwan's rapid economic growth since the early 1960's has resulted in substantially increased demand for meats and other foods (tables A and B). Because of its highly limited agricultural land resources (20 persons per cultivated hectare in 1981), Taiwan has come to rely heavily on imports for supplies of feedstuffs to support growing domestic production of pork, poultry, and eggs; for natural fibers for the export-oriented textile industry; and for various foods, notably wheat and powdered milk.

For political as well as economic reasons, the United States has been the principal beneficiary of Taiwan's demand for agricultural imports, supplying some 57 percent by value in 1980. The U.S. commands a virtual monopoly over Taiwan's imports of soybeans, while dominating the markets for imported feed grains (especially corn), wheat, raw cotton, tobacco leaf, and a number of individually less important products. The United States exported \$1,155 million in agricultural products to Taiwan in 1982, making the island the 10th largest buyer of such products.

Together, feed grains, soybeans, wheat, raw cotton, and tobacco leaf accounted for 83.5 percent of the value of U.S. agricultural exports to the island in 1981². With the exception of tobacco leaf, domestic production satisfies only a minor share of Taiwan's total demand for these products: imports provided 98.6 percent of Taiwan's total feed grain supply in 1981, 97.1 percent of its soybeans, and virtually all of its cotton and wheat. This heavy dependence on imports for several key products results from several historical and economic factors: the island's modest endowment of agricultural land; the dominance of rice, sugarcane, and vegetables in cropland allocation; and generally low barriers to imports of the products in question. Despite periodic official announcements of new policy initiatives to stimulate the production of import-substituting crops (especially corn and soybeans), this situation is unlikely to be reversed in the foreseeable future.

Income Changes Determine Export Growth

One important consequence of this heavy import dependence is that trends in domestic consumption far outweigh changes in production in determining demand

for the major U.S. export products. Moreover, with the important exception of cotton, changes in Taiwan's demand for U.S. agricultural exports principally reflect changes in real income: econometric estimates indicate that a 1-percent increase in real income in Taiwan results in increased demand for pork of 0.4 percent, for poultry of 1.1 percent, and for eggs of 0.7 percent. Given the relatively commercialized state of Taiwan's animal industries, changes in demand for animal products lead directly to changes in demand for formula feeds based on imported feedstuffs. Demand for wheat and tobacco products is likewise strongly affected by changes in real income. In contrast, the island's demand for raw cotton depends on the output of cotton textiles by its highly export-oriented textile industry. This depends in turn on (1) price relationships between cotton and synthetic fibers, (2) world demand for cotton textiles, (3) the degree of restriction placed on textile imports by Taiwan's trading partners, and (4) the competitiveness of the island's exports relative to those of other cotton textile producers.

In sum, forecasting growth trends in Taiwan's imports of major agricultural commodities from the United States requires an assessment of the island's prospects for growth in per capita income and population. Because Taiwan's economy is very heavily oriented towards exporting, income growth in the short run will primarily depend on the growth of world income and trade. In the longer run, the island faces the challenge of reorienting its export sector toward a more technically sophisticated product mix. This shift will be needed to offset the deteriorating international competitiveness of its present labor-intensive light manufactures, due to rapidly increasing labor costs. The import projections shown in table C are based on the assumption that Taiwan's aggregate real income will grow by 5.5 percent in 1983, and thereafter by 7.6 percent per year through 1989. Annual population growth is assumed to decline in equal steps from 1.84 percent in 1981 to 1.56 percent in 1989. Estimates of production of domestic substitutes are based on simple projection of existing trends; as noted above,

¹Foreign agricultural economic report to be published, by Donald A. Sillers, ERS, 1983. ²Cattle hides, apples, meat and bone meal, and inedible tallow contributed another 10.4 percent of the total.

Table A.—Per capita consumption of principal foods, Taiwan.

Type of food	1965	1970	1975	1980	1983*	1986*	1989*
<i>Kilograms per year</i>							
Rice (milled)	132.9	134.5	130.4	105.5	100.1	90.8	82.3
Wheat flour	22.3	25.4	24.3	23.6	26.1	26.4	26.7
Corn	1.7	2.2	2.8	7.3	10.4	10.6	10.9
Sweetpotatoes	48.3	18.1	10.2	4.1	3.6	2.8	2.2
Sugar	10.0	12.0	14.6	24.0	23.2	25.9	28.6
Soybeans (all forms except oil)	5.5	9.5	10.5	10.3	10.6	11.8	12.5
Pork	16.8	18.9	17.5	26.2	26.7	28.6	30.5
Beef	0.4	0.6	0.9	0.9	1.2	1.4	1.7
Poultry	2.0	5.6	8.4	12.3	13.3	15.8	18.2
Eggs	2.4	4.1	5.2	8.0	8.4	9.4	10.3
Fish	27.7	34.2	35.6	38.7	39.9	41.8	43.7
Milk (fresh milk equivalent)	5.3	11.1	16.0	27.6	33.2	40.3	49.0
Vegetable oil	3.5	5.6	6.3	7.8	7.9	8.6	9.4

*Projection.

Sources: Historical data from *Taiwan Food Balance Sheets* (various issues). Taipei: Council for Agricultural Production and Development, Executive Yuan. Projected consumption figures from *Taiwan: An Export Market Profile* (table 18).

Table B.—Aggregate consumption of principal foods, Taiwan.

Type of food	1965	1970	1975	1980	1983*	1986*	1989*
<i>1,000 tons</i>							
Rice (milled)	1,721.9	1,961.0	2,085.0	1,858.6	1,880.1	1,794.9	1,706.3
Wheat flour	313.5	370.7	388.7	416.2	477.9	521.7	554.3
Corn	21.8	32.3	44.6	128.3	195.3	209.5	226.0
Sweetpotatoes	626.2	264.6	163.7	72.1	67.6	55.4	45.2
Sugar	130.0	174.7	233.1	421.9	436.5	512.2	593.8
Soybeans (all forms except oil)	70.6	138.4	167.4	180.9	198.3	227.5	258.7
Pork	156.5	276.1	279.9	461.2	501.1	565.2	633.2
Beef	5.1	9.3	15.0	16.3	23.3	28.5	34.2
Poultry	25.8	81.7	133.6	216.3	250.6	311.5	378.2
Eggs	30.5	59.9	83.5	141.3	148.6	174.3	202.0
Fish	359.6	498.4	568.6	682.5	749.2	825.7	906.0
Milk (fresh milk equivalent)	68.8	161.3	255.8	485.7	623.6	796.7	1,015.9
Vegetable oil	45.8	81.0	100.9	137.8	147.1	170.4	195.3

*Projection.

Sources: Historical data from *Taiwan Food Balance Sheets* (various issues). Taipei: Council for Agricultural Production and Development, Executive Yuan. Projected consumption figures from *Taiwan: An Export Market Profile* (table 19).

Table C.—Projections of import quantities of major agricultural commodities, Taiwan, 1983-89

Commodity	1983	1984	1985	1986	1987	1988	1989
<i>1,000 tons</i>							
Feed grains (total)	4,097	4,267	4,433	4,618	4,836	5,090	5,375
Soybeans	1,228	1,268	1,314	1,371	1,431	1,505	1,588
Wheat	740	752	778	804	830	858	886
Raw cotton	244	251	259	267	275	283	291
Tobacco leaf	12.2	12.7	13.2	13.7	14.2	14.7	15.3
Milk products (fresh milk equivalent)	576	613	665	720	781	848	921
Beef	17.4	18.6	20.2	22.3	24.5	26.5	28.8

Note: Projections from *Taiwan: An Export Market Profile* (table 27).

the import demand estimates are relatively insensitive to errors in production estimates. Because the growth prospects for Taiwan's cotton textile industry fall outside the scope of the *Profile*, official estimates of 3 percent annual growth in production were used in projecting import demand for raw cotton.

Besides being affected by aggregate import quantities, U.S. agricultural sales to Taiwan in the 1980's will depend on the United States' market share. The U.S. share in each commodity group depends on a different set of factors, political as well as economic. United States dominance in soybeans is unlikely to deteriorate unless significant cost realignments occur among major soybean producers. A similar near-monopoly that the United States enjoyed in wheat has recently been challenged by Canada. In part, Taiwan's recently increased purchases of Canadian wheat reflect a desire to redress an ongoing trade surplus with Canada. In cotton, Taiwan has an official target of buying 55 to 60 percent of its imports from the United States; it spreads its remaining purchases among a wide range of suppliers. The U.S. share of tobacco leaf imports fell from about 70 percent during 1978-80 to 51 percent in 1981, reflecting large purchases of competitively priced, high-quality leaf from Zimbabwe. Although the United States regained its previous market share in 1982, price competition with Zimbabwe could play an important role in determining future trends.

U.S. Share in Feed Grain Market Is Uncertain

The most difficult market share to forecast is that of total feed grains. In 1981 and 1982, Taiwan shifted a sizable share of its corn purchases from the United States to Thailand and South Africa. The Thai share may fall back to earlier levels because of ongoing problems with product price and quality. On the other hand, South Africa, which maintains diplomatic ties with Taiwan, is likely to retain an important share of the total feed grain market in years to come, and may increase that share if the informal relations between the United States and Taiwan deteriorate further³. Other factors affecting market shares in feed grains include short-run supply changes in exporting countries and a price-stabilization scheme applied by Taiwan to imported corn but not to other feed grains.

COTTON AND OTHER INDUSTRIAL RAW MATERIALS IN EAST ASIA

The East Asian market for U.S. agricultural products is unique because of the importance of cotton, hides, and tallow in the trade. At \$2.2 billion, these commodities comprised 25 percent of total U.S. farm exports to East Asia in fiscal 1982, and the East Asian purchases of them were almost 6 percent of all U.S. agricultural exports. These products have little or nothing to do with East Asian agriculture, or with food consumption. Demand for them is not even primarily a function of the internal economies of East Asia, but rather is determined

In general, Taiwan's tariffs and other trade barriers do not strongly constrain U.S. sales of feedstuffs, wheat, tobacco, or cotton. Annual quotas are placed on imports of bulk commodities, but these are used for planning purposes rather than for restricting trade. Price-stabilization measures applied to imported corn, soybeans, and wheat nullify the effects of book tariff rates on import demand, but tend to destabilize demand patterns between these products and their substitutes.

Tariffs do pose significant constraints to U.S. sales of certain temperate zone fruits and nuts, and processed foods, none of which play an important role in our current exports to the island. Taiwan made significant concessions on a number of horticultural products of interest to the United States in bilateral negotiations in 1979 and 1981. The prospects for further tariff reductions in this area are mixed. Although further concessions may be possible on items not produced in Taiwan, the authorities there show increasing caution in considering reductions that might hurt domestic agricultural producers. Farm family incomes in Taiwan lag far behind those in other sectors of the economy, and the authorities are feeling increasing pressure to preserve still-viable segments of the agricultural sector, especially meats and poultry, fruits, and vegetables.

The results of Taiwan's removal of import controls on apples in 1979 may suggest some reasons for this cautious approach. Despite retention of a 75-percent tariff, liberalization led to a marked increase in apple imports from the United States and subsequent complaints from domestic producers. Consideration of new quantitative restrictions on apples has been met by vigorous protests from the United States. Having seen that moves to liberalize trade cannot be easily reversed, the authorities are likely to examine proposals for further liberalization carefully for possible harm to domestic producers.

Whether or not Taiwan is willing to accept further tariff reductions, significant opportunities seem to exist for expanded sales of food products, including temperate fruits, nuts, and, especially, processed and convenience foods. On many such products, the evidence suggests that market research to identify latent consumer needs and desires, together with promotion to develop these markets, may be the most important requirements for expanded sales to Taiwan. [Donald A. Sillers (202) 447-8229]

by markets for textiles, garments, leather goods, soap, etc., in other parts of the world. Because the commodities stand separate from agriculture and food, and because the industries using these raw materials face similar problems in all four countries, a common discussion is presented below. Tobacco is included as well. The signing of new bilateral textile agreements with East Asia's trade partners was of particular significance for U.S. cotton farmers and is highlighted here.

Growth Faces Major Constraints In Largest Cotton Market

The four nations of East Asia constitute the most important market for U.S. cotton. Together, they have

³South Africa's 1983 sales of corn to Taiwan will be limited by a shortfall in supply.

taken about one-half of all U.S. cotton exports in recent years (61.8 percent in fiscal 1982). Although their marketing channels are well developed to receive high-quality U.S. cotton, these countries are gradually losing their competitiveness in exports of light industrial products; countries with lower labor costs are gaining. In addition, growth in cotton goods exports to the largest markets faces greater protectionist barriers. These two factors, for reasons presented below, are not expected to send the East Asian cotton market into a tailspin. They do, however, make a return to quick growth in any of the four countries' cotton imports very unlikely.

Cotton use in 1982/83 is running behind year-earlier levels, and is expected to remain flat in 1983/84. Spindles for spinning cotton have been at about the same level since 1981 (10.966 million in 1982), after a modest decline from the late 1970's. The region has now become a net importer of cotton yarn. Yarn exports from Korea and Taiwan have not filled the growing import needs of Japan and Hong Kong, which have bought from the PRC, Pakistan, and a few other countries. This trend is expected to continue in Hong Kong, where spindles in operation fell by 10 percent between 1979 and 1982, and textile industry employment dropped by 26 percent. Despite pressures from its spinning industry for protectionist measures, Japan is also likely to increase imports of cotton yarn, rather than raw cotton.

However, the threat posed to the East Asian spinning industries by countries with lower labor costs can be partly met by investment in better spinning mills. Taiwan, Korea, and Japan are taking steps in this direction. Production and export of higher-quality cotton and cotton-blend textile products require easy availability of quality yarn. Taiwan's industry, buttressed by new investments, has recently even shown an increase in spinning capacity. Thus, a solid but perhaps slightly smaller-than-before spinning base should persist in the region, necessitating continued large imports of cotton.

Table A.—Cotton in East Asia

Country and year ¹	Net imports	Consumption	Ending stocks
1,000 tons			
Hong Kong			
1981/82	137	148	40
1982/83 ²	131	137	44
1983/84 ²	158	155	44
Japan			
1981/82	763	746	170
1982/83 ²	731	725	175
1983/84 ²	700	720	155
Korea			
1981/82	316	324	82
1982/83 ²	320	325	79
1983/84 ²	330	330	80
Taiwan			
1981/82	247	230	139
1982/83 ²	205	220	124
1983/84 ²	218	222	120
Total			
1981/82	1,463	1,448	431
1982/83 ²	1,391	1,407	422
1983/84 ²	1,406	1,427	399

¹August/July year. ²Estimates.

Bilateral Pacts in 1982 Limit Growth in Textile Exports

The region has a large domestic market (over 180 million people) for cotton textiles, but manufacturers depend heavily on export markets, which take most of the textile production of Hong Kong, Taiwan, and Korea. A growing threat to exports is protectionism in major markets. This manifested itself strongly in 1982, when, in the wake of the renewed Multifiber Agreement (MFA), new bilateral trade accords were negotiated among the largest textile import markets—the United States and the EC— and the largest textile exporters—three of the countries covered in this report. In general, the bilateral agreements attempt to pull down the rate of export growth from levels set in earlier agreements. In most cases, the agreements with Hong Kong set lower quota growth rates than those for Korea and Taiwan. This has implications for U.S. cotton, since Hong Kong is the premier cotton goods exporter in the world, while Korea and Taiwan emphasize polyester and polyester/cotton product exports.

The agreement with the EC calls for initial absolute declines in the volume of certain sensitive East Asian exports, including cotton T-shirts, a heavily traded item. Growth rates on quota categories, whether they use as a base the new, reduced 1983 levels or levels inherited from the previous agreement, are quite low, ranging from 0.1 to 3 percent. Although exact growth levels are impossible to calculate, the EC agreements overall allow for very little expansion, probably less than 1 percent per year, in East Asian cotton goods exports to the EC in 1983-86.

Table B.—U.S.-East Asia textile agreements

	Annual growth rates		Proportion of total textile exports covered
	Range for specific categories	Weighted average	
South Korea	.6-4.5	1.1	75 percent
Taiwan	0-4.5	.73	75 percent
Hong Kong	.5-1.5	.65	68 percent

Agreements with East Asia's other top market, the United States, were a little more generous. Covering the period 1982-87, they do not call for initial reductions in any quotas (in contrast to the EC) and allow for slightly higher growth rates, on the average. As table B shows, the agreement with Korea is the most favorable of the three; that with Hong Kong is the least favorable. Depending on the extent to which exporters are able to fill portions of quotas that they have not filled in recent years (because of competition from the PRC, Thailand, and other countries), growth may exceed 1 percent per year.

Canada, Australia, and certain non-EC European countries also severely limited growth in future textile imports from East Asia in unilateral or bilateral actions in 1982. Significant growth in textile (especially garment) exports, the region's dominant use for cotton imports, therefore depends on newer markets in the Middle East, Africa, and Latin America, and on new product lines not constrained by quotas. Without these new markets, which are likely to be difficult to identify and manage, growth in cotton use in East Asia through the mid-1980's is likely to be linked to about the 1-2 percent

growth rate expected for textile exports to the large, traditional markets.

Prospects for East Asian cotton imports in 1983/84 depend on cotton-polyester price relationships, textile product sales to the domestic and export markets, and the extent to which cotton yarn will be provided by imports from outside the region. Growth in textile industry demand will surely be modest, but there is no reason to expect an absolute decline. Cotton yarn imports, on the other hand, could increase, diminishing the need to import U.S. cotton; the forecast given in table A does not assume a large increase in yarn imports. [John Dyck (202) 447-8229]

Taiwan's Cotton Imports Jump in 1982

Taiwan's imports of cotton during January-October 1982 were valued at \$337 million, up 25 percent from the same period of 1981. Cotton import prices for January-October averaged around \$1.39 per kilogram, compared with \$1.74 per kilogram for the same period of 1981. As a result, Taiwan's cotton imports jumped 49 percent, from 167,000 tons in the first 10 months of 1981 to almost 250,000 tons in the same period of 1982. Reasons were a buildup in stocks with low-priced cotton, a switch to cotton by some mills previously spinning only polyester, and greater-than-anticipated strength in demand for yarn and fabrics, especially from Hong Kong. Overall for 1982, it is estimated that Taiwan's total imports of cotton reached 265,000 tons, more than 45 percent above 1981 imports of 183,000 tons.

Taiwan's imports of cotton in 1983 are forecast at about 200,000 tons, down sharply. Factors which are expected to influence the decline are the large carry-over stocks from the previous year, recent increases in U.S. cotton prices, and a lackluster world market for textile products. Taiwan's spinners are also facing continued fierce competition in textile markets from their traditional competitors, Japan and South Korea, as well as from other developing countries. [Amjad Gill (202) 447-8229]

Hong Kong Textile Exports To U.S. Firm in 1982

The 1981-82 world economic slowdown and tightening of quotas in Hong Kong's major overseas markets were expected to lower drastically the growth rate of the colony's textile products exports. A slowdown took place, but not to the extent expected.

One of the major positive influences on Hong Kong's textile exports appears to be the strong U.S. dollar. Hence, despite only modest growth in disposable income in the United States in 1981 and 1982, textile exports from Hong Kong to the United States increased by 20 percent in 1981 and fell by only 4 percent in 1982. The United States accounted for 32 percent of Hong Kong's textile exports in 1982, up from 29 percent in 1979. By contrast, exports to traditional markets in the EC countries are stagnating or declining. The bilateral textile provisions negotiated with the United States and the EC by Hong Kong in 1982 did not improve prospects for textile exports.

Textile Industry Modernizes

In Hong Kong's highly capitalized and high-labor-cost industry, modernization has already taken the form of

improving quality within a smaller industry. Eventually, this could mean that the textile industry in Hong Kong will primarily support a fashion center. As a result, operations for the remaining spinners (the number of mills declined to 23 in mid-1982 from 29 in 1980) and weavers could remain profitable. High labor and other operating costs have also led to the discontinuing of labor-intensive processes such as knitting textile items in Hong Kong. Hong Kong has now become one of the fastest growing markets for labor-intensive textile items from South Korea and Taiwan. The pace and form of modernization of Hong Kong's textile industry will strongly influence the future growth potential of U.S. cotton exports.

U.S. cotton sales to Hong Kong will likely pick up steam throughout the year as the Western textile market rebounds. However, failure to resolve the U.S.-China textile dispute will constrain potential growth because a substantial portion of Hong Kong's textile business depends on trade with China. The PRC poses a formidable threat to the Hong Kong textile industry, but the colony is now developing ways to work in tandem with the PRC industry in Guangdong Province while at the same time exploiting its present technical and marketing advantages over China. Total Hong Kong imports of cotton are estimated using time series analysis, at 147,000 tons for August-July 1982/83 (table C). The U.S. share of Hong Kong imports was 43 percent in calendar 1982, implying U.S. exports of 63,000 tons for the marketing year. Preliminary time series forecasts indicate that Hong Kong cotton imports for the 1983/84 marketing year could bounce back to 173,000 tons. However, Hong Kong trade sources, reflecting the uncertainty of the 1983 political/economic climate, present much gloomier forecasts, ranging from 120,000 to 147,000 tons for 1983. [Richard Nehring (202) 447-8230]

Table C.—Monthly forecasts and estimates of raw cotton imports for 1982 and 1983 marketing years

Month	Hong Kong ¹	
	1982	1983
	1,000 tons	
August	10	14
September	13	14
October	11	12
November ²	11	13
December	07	13
January	09	11
February	11	15
March	14	14
April	17	16
May	14	19
June	16	15
July	14	17
Total	147	173
Thousand bales	675	794

¹N = 134, Model = (2,0,1) (0,1,1)₁₂, Chi Square for 14 residuals = 20.0. ²Last actual observation.

Korea Fares Poorly in World Textile Markets, 1982 and 1983

Cotton use in Korea rose by less than 2 percent in 1981/82 (August-July), and imports dropped by more

than 2 percent as stocks were drawn down. Korea's textiles industry has suffered financially since 1979, and found itself in a poor position to compete by price-cutting in world export markets in 1982. Cotton fabric shipments to the United States fell off sharply, and Korea lost ground to Taiwan and other countries in the polyester/cotton blend garment market in the United States. Other export markets showed slight growth, and the domestic clothing market was stagnant.

The United States recouped its traditional market share of 96 percent in 1981/82, as U.S. cotton prices declined from high 1980/81 levels. The ROKG experimented with a freer cotton import policy in July 1982, but reinstated even stricter controls on the quality of imports in November as increased imports of non-U.S. cotton proved to have quality problems. Although non-U.S. imports would imply a lower U. S. market share for 1982/83, the outcome of the experiment will probably be to buttress U.S. exports in coming years. The Korean cotton industry remained a major user of U.S. GSM-102 credit guarantees.

The outlook for 1983 is particularly bleak for Korea, which faces one-time reductions in some cotton goods exports to the EC and new export growth controls in almost all the developed country markets. Cotton use is forecast to rise by 0.6 percent, with imports rising by 1.4 percent. [John Dyck (202) 447-8229]

Japanese Yarn Market Weak

Producing no cotton itself, Japan imports all its cotton requirements. It imported 784,000 tons of raw cotton in 1982, 353,000 (45 percent) from the United States. This compares with a total 700,000 tons imported in 1981, 259,000 (37 percent) from the United States. The United States increased its share of the market in 1982 because of competitive cotton prices. Other major suppliers included Pakistan, the USSR, Mexico, Sudan, and Australia.

Japan's domestic yarn market remained weak, despite spinners' voluntary production cutbacks of up to 10 percent. Since September 30, 1981, the spinners have restrained output on a voluntary basis. Increased imports of cotton yarn, mostly from Pakistan and South Korea, softened already-low yarn prices. In an unusual move, the Japan Spinners Association (JSA) accused South Korea, largest supplier, and Pakistan of dumping cotton yarn. Imports of cotton yarn increased an estimated 50 percent in 1982 over 1981. At the same time, Japan's textile exports were down an estimated 10 percent due to slack demand in the Middle East and South Asia. [Lois Caplan (202) 447-8860]

Cattle Hide Imports Down Slightly

Hide imports to East Asia dropped slightly in 1982. In Japan, still the largest market, use fell off. But Korea and Taiwan, encouraged by sharply lower hide prices and growing footwear exports, increased imports and use. Growth in use is expected to continue in both countries in 1983, and total regional consumption should rise in later years as well, if protectionism does not choke off growth in footwear and leather good exports.

Net leather imports by the region have grown in recent years. While the volume of Japanese leather exports to Korea, Taiwan, and Hong Kong has not increased much, Japan still provides the dominant share of the total value of leather imports in East Asia, successfully pro-

Table D.—East Asia: bovine hides

	Produc- tion	Net imports	Consump- tion	Ending stocks
1,000 tons				
Hong Kong				
1981	0	11	11	NA
1982	0	9	9	NA
1983	0	9	9	NA
Japan				
1981	41	240	279	10
1982	42	210	255	7
1983	42	215	257	7
Korea				
1981	8	121	130	9
1982	7	135	144	7
1983	9	150	158	8
Taiwan				
1981	1	58	59	NA
1982	1	73	74	NA
1983	1	80	81	NA
Total				
1981	50	430	479	¹ 19
1982	50	427	482	¹ 14
1983	52	454	505	¹ 15

¹Stock data available only for Japan and Korea.

Table E.—Leather trade of East Asia

	Imports	Exports	Net imports
1,000 tons			
Hong Kong			
1981	45	12	33
1982	49	21	38
1983	58	30	28
Japan			
1981	1	23	-22
1982	1	23	-22
1983	1	23	-22
Korea			
1981	23	0	23
1982	33	0	33
1983	50	0	50
Taiwan			
1981	13	1	12
1982	17	3	14
1983	16	5	11
Total			
1981	82	36	46
1982	100	47	63
1983	125	58	67

cessing U.S. hides and then exporting them to the leather industries of the other countries. [John Dyck (202) 447-8229]

Inedible Tallow Imports Down Because of Palm Oil Competition

Tallow imports, despite a price drop of about 15 percent, declined slightly in 1982, mostly as a result of strong competition from palm oil. Korea overtook Japan as the region's largest tallow user. Food use in Korea continued to decline, and use in soap manufacture failed to grow enough to compensate. Korean soap exports,

chiefly to Africa, grew in volume but dropped in unit value, so that the profitability of the trade probably did not increase despite the tallow price drop. Both consumption and imports are expected to increase in 1983, but the increase depends largely on the acceptance of more tallow for feed use in Korea; competition from palm oil is expected to remain intense. The U.S. share of East Asian imports, which dropped in 1982 because of price competition from Australia and New Zealand, may increase in 1983 as U.S. prices decline. [John Dyck (202) 447-8229]

Table F.—East Asia: inedible tallow

	Net imports	Consump- tion	Ending stocks
		1,000 tons	
1981	340	367	33
1982	320	340	31
1983	337	357	29

Large Korean Tobacco Crop Reduces Need for Imports

Tobacco production in East Asia rose over 1981 levels, chiefly because of a large harvest in Korea. Despite the poorer-than-usual quality of the Korean crop, imports fell from 1981 levels, with adequate production and stocks in Taiwan, Korea, and Japan. Consumption appears to have

Table G.—East Asia: tobacco

	Area	Pro- duction	Imports	Con- sumption	Exports	Ending stocks ¹
	1,000 hectares			1,000 tons, dry weight		
Total						
1980	115	211	106	294	44	715
1981	108	201	129	295	55	700
1982	105	202	115	295	45	695
1983	105	202	112	279	45	681

¹Japan and Korea only

held steady across the region. In the absence of notable increases in consumption, and given adequate stock levels, imports in 1983 should be slightly lower than in 1982. Export levels should not change, but the quality of Korean exports (15,000 flue-cured and 20,000 burley) is likely to be lower than in 1981. [John Dyck (202) 447-8229]

Japan: Consumption Per Person Falling; Policies Reduce Tobacco Area

Leaf tobacco production in Japan increased an estimated 2 percent in 1982, despite an 8-percent cut in planted area. The current reduced area of 54,000 hectares, which will be maintained through 1984, is expected to bring domestic leaf production in line with domestic demand, eliminating surplus production. Japan imported 83,000 tons of tobacco in 1982, the same as in 1981. The United States supplied 60 percent of the total, down 3 percent from 1981.

An annual tobacco consumption survey conducted by the Japan Tobacco and Salt Public Corporation (JTS) showed a further decline in 1982 in the percentage of the population that smokes. Increases in cigarette prices, to be in effect by May 1, 1983, can be expected to result in even lower tobacco consumption.

However, several measures may increase the share of imported cigarette products in the Japanese market, now only about 1.5 percent of total domestic sales. In market-opening moves, Japan's Government decided to allow all tobacco retailers to handle foreign tobacco products by October 1983, and lowered tariffs on imported cigarettes, cigars, and cheroots from 35 to 20 percent; on pipe tobacco from 60 to 35 percent; and on other manufactured tobacco products from 7 to 4 percent. [Lois Caplan (202) 447-8860]

Hong Kong Duties to Curtail Cigarette Imports in 1983

Hong Kong imports of cigarettes grew by 15 percent, to \$118 million, in 1982. About 40 percent of U.S. cigarettes imported are reexported to PRC. Growth in 1983 trade will be slowed by a fourfold increase in duties on tobacco and cigarettes, imposed in February 1983. Duties on cigarettes, \$27 per kilogram, are consistent with new antismoking laws. [Richard Nehring (202) 447-8230]



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